European Board Composition: **A Time of Change**

The composition of statutory boards—particularly regarding the representation of women—continues to be a hot-button topic in European corporate governance. In our view, having more gender-balanced boards is a subset of the larger issue of constructing boards with the range of capabilities, experience and perspectives necessary to provide agile oversight, effective corporate governance and appropriate counsel to the C-suite in a time of continual technological, economic and political change.

In 2009, Russell Reynolds Associates conducted an analysis of the supervisory boards of the companies included in the primary large-company stock index of 12 European countries. Now, to gain insight into how boards have been addressing the issue of composition, we revisit the boards of the companies on those indices to see what changes have taken place regarding gender, as well as nationality and age.[1]

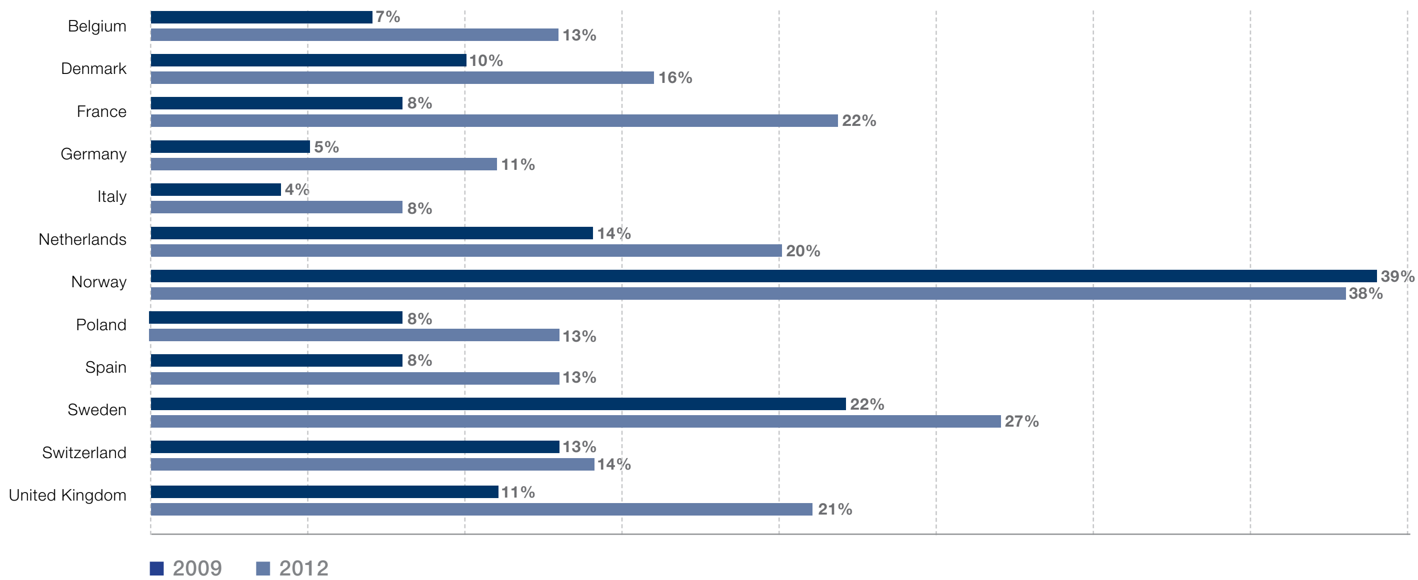
The findings show that European boards have become more gender-balanced and international. And while average age has not changed appreciably, the data show that women are being appointed to boards at a younger age than men—consistent with the conventional wisdom that casting a wider net often involves looking at candidates slightly earlier in their career than otherwise is the norm.

Gender

The discussion in Europe regarding increasing the number of women in the boardroom was framed by Norway's 2003 legislation, which specified that both genders had to have at least 40 percent representation on public-company boards. Since then, many European countries have followed suit with similar legislation: Belgium, Italy and the Netherlands have set quotas of 30 percent; France and Spain have set theirs at 40 percent; and the European Union continues to look at ways of establishing a 40 percent benchmark for its member states.

Comparing the 2012 data with that of 2009, however, shows that even countries without legislatively mandated benchmarks have had significant increases in the percentage of women on large-company boards (see Figure 1). Besides Norway, which effectively has achieved its goal, only Switzerland has failed to demonstrate a significant increase.

Figure 1: Percentage of Supervisory Board Members Who Are Women



But this is only part of the story. With the exception of Norway, all the countries that have set quotas still are significantly short of their goals—and have only a few years to make up the difference (see Figure 2). As a result, nominating committees in these countries will be facing heightened competition as everyone seeks to draw from the same European talent pool while racing against nearly common deadlines. This will require companies to develop strong business intelligence and a competency-based board recruiting strategy that allows them to cast a wider net while meeting the specific needs of the board.

Figure 2: National Quotas for Female Directors

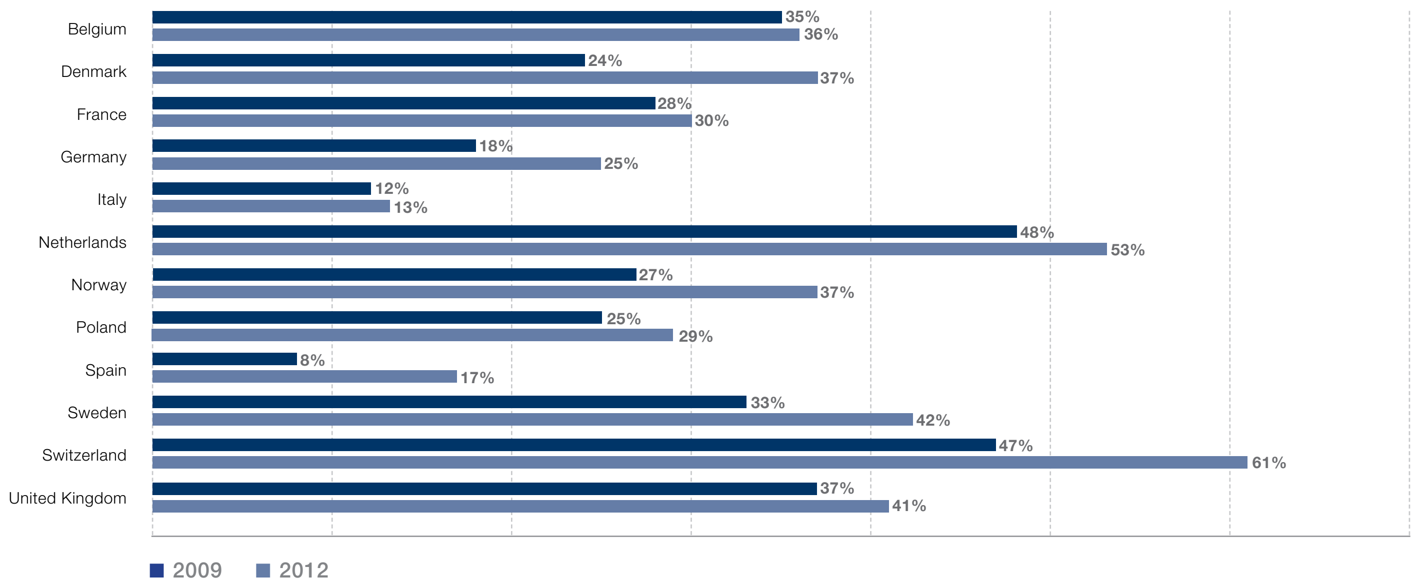
COUNTRY	2012 PERCENTAGE	QUOTA	TARGET DATE
Belgium	13%	30%	*
France	22%	40%	2017
Italy	8%	30%	2015
Netherlands	20%	30%	2016
Norway	38%	40%	2008
Spain	13%	40%	2015

* All director appointments must be women until goal is met.

Nationality

Nationality is another important dimension of board composition in today's more global environment. Here, there is less of a clear-cut trend than there is with gender diversity (see Figure 3). Some countries— Switzerland, Denmark, Norway, Spain, Sweden and Germany—have seen notable increases in the percentage of directors of foreign nationality over the last three years, while the percentages in others—the Netherlands, Poland, the United Kingdom, France, Belgium and Italy—have increased only slightly.

Figure 3: Percentage of Supervisory Board Members of Foreign Nationality



There are several reasons for these mixed results. First, as was mentioned in the original 2009 report, the practicalities of developing a truly global board are complex: Where will the meetings take place? Do meetings need to be in person or can they be via video conference? What will be the common language for communication? From a methodological perspective, it needs to be remembered that some of the companies in the sample have dual listings, which will artificially increase the percentage of foreign directors in the country of the second listing. In addition, some of the companies surveyed have undergone cross-border mergers, such as Spain's International Airlines Group, which was formed by the 2010 merger of Iberia and British Airways. In such cases, increased foreign representation is a consequence of business-driven decisions rather than strategic moves by the board's nominating committee—the former leads the latter. Sometimes board trends are the result of deliberate planning; other times, they merely reflect the reality of an increasingly globalised economy.

Is there a relationship between the increased percentage of foreign representation on European boards and the increased percentage of female directors? Perhaps this question can shed some light on how nominating committees recently have addressed the need to be more aggressive regarding gender diversity.

One way of examining this question is to look at the directors appointed between 2009 and 2012 and compare the percentage of male directors who are foreign with the percentage of female directors who are foreign. If the latter figure is significantly higher than the former, it suggests that boards are increasing the percentage of women in the boardroom by looking for candidates beyond their country's borders.

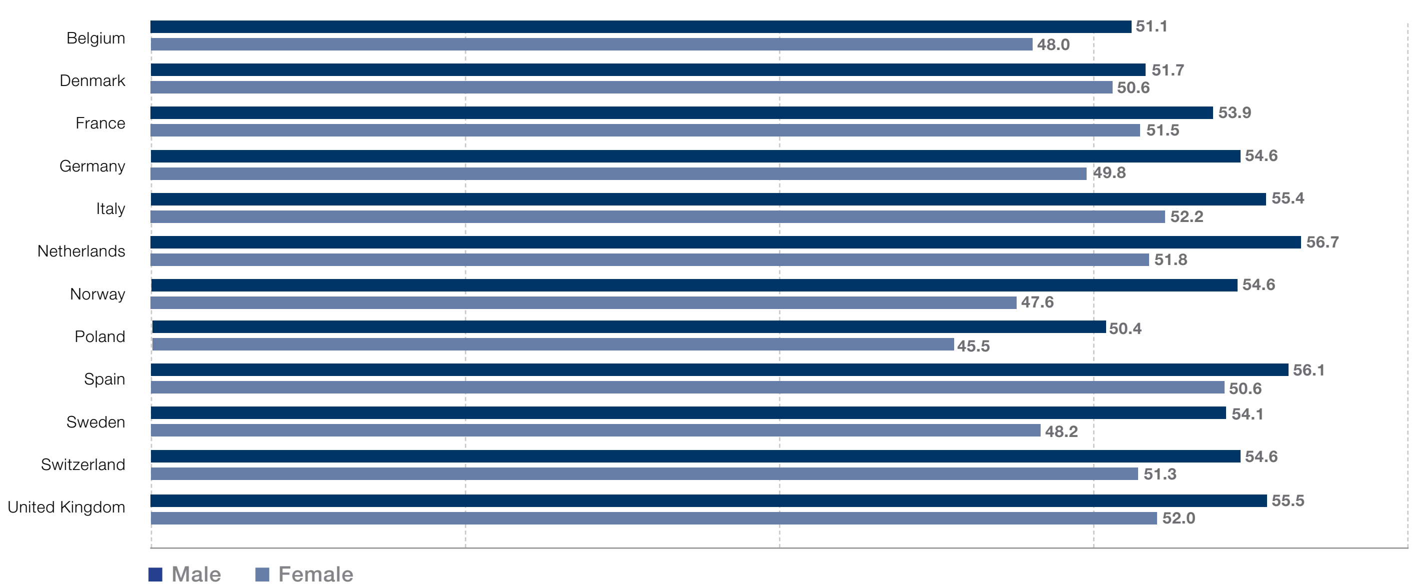
In Touch with the Board

Figure 4 shows there, indeed, are a number of countries— Denmark, Germany, the Netherlands, Poland, Belgium and Italy—where nominating committees seem to be following the strategy of increasing the number of foreign female directors. Interestingly, however, there also are countries where there seems to be no difference in the geographic scope of the recruiting process and other countries in which companies are much less likely to look abroad for a female director than for a male director.

Figure 4: Percentage of Male/Female Foreign Directors Appointed between 2009-2012

There has been little change in the last three years in average age of board directors in the companies analysed. However, given the increased percentage of female directors, it makes sense to examine age differences between genders. Female directors tend to be younger upon appointment than male directors (see Figure 5).

Figure 5: Average Age at Appointment, Male vs. Female



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Conclusion

Examining how the composition of European large-company boards has changed in the last few years provides an interesting case study of how one trend can reinforce another. As popular and investor sentiment—along with possible and actual legislation—has coalesced around the goal of increasing the number of female directors, the search for these women has increased the inclination of boards in some countries to look beyond their borders. This trend has intersected with separate transactional and business forces making boards more global.

These overlapping developments underscore the fact that the larger imperative is not to meet quotas and benchmarks but to assemble boards equal to today's challenges and opportunities. Increased competition for female directors combined with benchmark deadlines will continue to force boards to look beyond their own borders and at candidates earlier in their career than is customary. Successful director recruitment thus depends more than ever on a clear understanding of the skills needed in the boardroom and on knowing where those skills reside—beyond the usual suspects. Successfully navigating the challenges of boardroom composition, however, will bring substantial benefits in terms of expanded boardroom diversity and capability.

1 Statistics in this survey are based on figures for those companies listed on each country's primary large-company stock index: BEL20 (Belgium), OMX Copenhagen 20 (Denmark), CAC 40 (France), DAX 30 (Germany), MIB 30 (Italy), AEX 25 (the Netherlands), OBX 25 (Norway), WIG20 (Poland), IBEX 35 (Spain), SMI 20 OMX Stockholm 30 (Sweden), (Switzerland) and FTSE 100 (United Kingdom). Statistics are from BoardEx and company web sites as of May 2012, with the exception of Spain, where the data were collected as of December 2012.

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