



# STATE OF PLAY: EUROPEAN BOARD DIVERSITY

2018-2019 EUROPEAN MARKET REVIEW

## About CGLytics

CGLytics is transforming the way corporate governance decisions are made, for effective oversight and competitive edge. Combining the broadest governance and executive compensation dataset in the market with powerful analytics tools, CGLytics enables organizations to make better informed, data-driven decisions.

CGLytics provides real-time data for an independent analysis of companies' governance practices including peer benchmarking. CGLytics is the source of global compensation data and analytics for Glass Lewis' voting recommendations and a trusted Diligent partner.

**Please note.**

For the purpose of this study, the companies surveyed are the companies currently included within CGLytics universe of coverage. For a full breakdown of these countries and relevant indices per country, please refer to appendix A.

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### Investors call for greater female board representation

Over the past several years, gender diversity at the board level has been addressed by legislative bodies in many countries. This has led to many diverse discussions with regard to the correlation of the level of gender diversity on the board and the company's ability to create long-term value for shareholders and other stakeholders.

Many company leaders have commented on gender diversity, and there is a greater concept that board diversity is just as important as the profitability and performance of a company, where everyone should be aligned.

Companies are appointing more and more women onto their boards. Consequently, many male board members are losing those seats as companies are choosing from a wider and broader pool of candidates; evaluating and choosing skills and the different perspectives needed to complement their boards. Moreover, many investors are calling for more diversity in the boardroom; gender diversity, age diversity, as well as experience abroad in order to maximize the company performance and value in the long run.

During the 2019 proxy season, the issue of potential director overboarding received an even higher level of attention. From the investor perspective, the question of whether or not directors are able to fully fulfill their board level responsibilities, given the large number of boards on which some serve, has helped push the issue again to the forefront. Some of the largest asset managers have enriched their proxy guidelines to accommodate for such cases. During the 2019 proxy season, many boards also faced significant pushbacks to their director appointments from shareholders.

Compass Group PLC saw one of its directors receiving a 22.38% revolt on the re-election resolution. At the same time, another of their directors received more than 10% revolt, at 11.2%.

Carrefour SA faced a revolt of more than 15% for all its director appointment renewals/ratifications, with the highest revolt being 27.07%.

Kingspan Group PLC saw six of its directors facing shareholder opposition on their mandate renewal of almost 10% opposition, while one director received an opposition of 11.81%.

### European Overview: Governance codes and regulations

Proponents of increasing gender diversity on boards state that companies failing to take gender into account during the nominations process are missing opportunities of hiring exceptional talent and potentially exposing their business to reputational risk. It is generally accepted that more diverse groups tend to be more creative and are better at problem-solving. To perhaps address this, the European Commission in its European 2020 strategy has proposed a law that requires a minimum 40% representation of female directors across listed companies among the EU member states.

Over the years, many European countries have passed legislations and changes to their governance codes with regard to diversity and overboarding issues.

Norway was the first country to pass a gender related legislation in 2014, where companies were required to have at least 40% of their board positions filled by women. Germany's Corporate Governance Code also requires companies to have at least 30% representation of both genders on their boards. Other countries (Spain, Netherlands, Ireland, Austria, Italy and France) have also passed similar provisions.

Switzerland (a non-EU country) is among the few countries that has not yet included a legal or best practice provision regarding board-level gender diversity into market requirements. In June 2019, however, the lawmakers in parliament's upper house voted in favor of the measure to increase the number of women in listed companies. The draft law includes a 30% quota for women on corporate boards and a 20% in the case of executive committees. The measure, however, is considered as symbolic rather than concrete, given that it follows the "comply-or explain" principle.

In the United Kingdom, Lord Davies in his final report included a new target for FTSE 350 companies of 33% female positions in boardrooms by 2020. The new target was a strengthened quota after issuers in the FTSE 100 index reached the set target of 25% female representation in boardrooms in 2015, a target which was set in 2011.

## Top 5 Key Takeaways

### 1 France is the country with the highest female representation across Europe

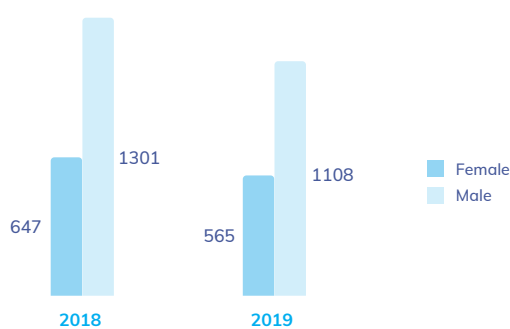
From the analysis utilizing CGLytics' data and analytics platform, it appears that in 2019 France is the country with the highest female representation across Europe. With a corporate governance code requiring that both genders hold at least 40% of the board seats, findings reveal that the French issuers within the CGLytics universe are ahead of the quota with 42% female representation on boards.

When comparing France to the average female board seat representation across regions, the recent report by Diligent Institute: **A Few Good Women: Gender and Inclusion in Public Company Board Leadership** reveals that in Europe only 27% of females hold board positions, and the average is even lower in the United States at 20%. Globally, only 22% of corporate directors are women.

### 2 More than one third of new appointments in 2019 were women

Comparing the number of appointments in 2018 to that of 2019 across the European indices covered in this report, we find a decrease in the number of new female appointees to the board. The overall ratio, however, of the appointed women increased by just 0.6% in comparison to the year on year total number of female appointees. Our findings also reveal that of the 1,673 individuals appointed, women accounted for 33.8%.

Appointments by gender (2018 & 2019)



### 3 Directors within the age range of >50-65 dominate boards across Europe

Market sentiment is starting to push forward the idea that younger director can be more innovative and bring new, fresh ideas to boardroom discussions. Findings suggest that European boards are predominantly composed of directors who are older and are perceived as more experienced.

Looking at companies by sector and age representation across the different age brackets, the Energy sector shows the highest representation with 100% of companies having at least one board member in the >50-65 age bracket and 83% of Energy companies having at least one board member above 65.

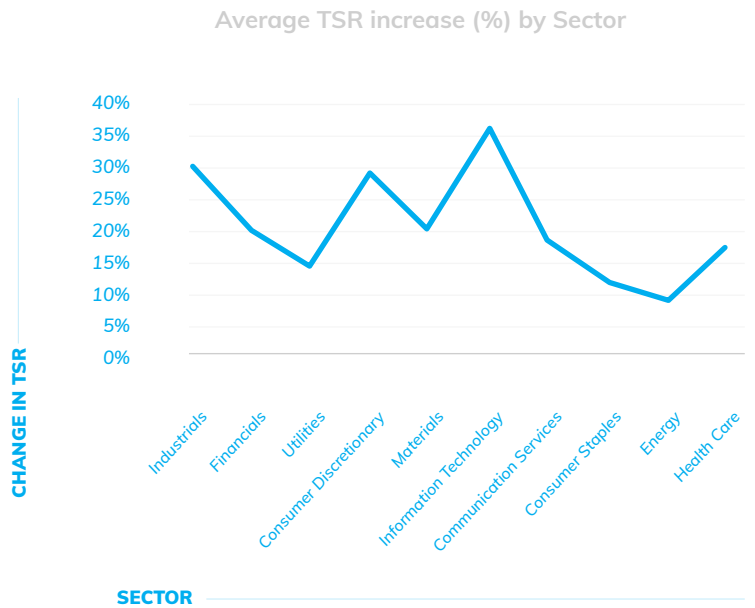
Age representation by sector

Sector (% of companies)	>50-65	>65
Industrials	98%	79%
Healthcare	100%	69%
Informational Technology	98%	64%
Financials	98%	75%
Utilities	100%	71%
Consumer Staples	99%	74%
Energy	100%	83%
Consumer Discretionary	98%	79%
Telecommunications Services	100%	69%

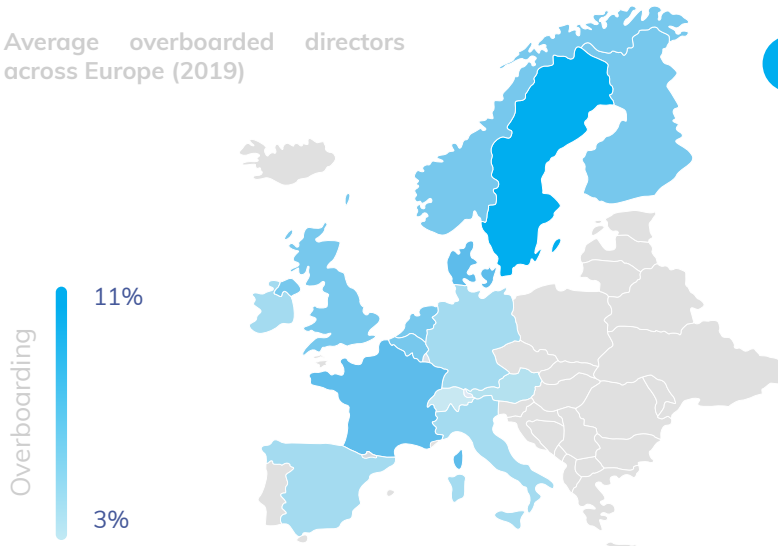
## Top 5 Key Takeaways

### 4 Average TSR increases regardless of average age of board members

While the average age of directors on European boards remains high, potentially due to the changing profile of board appointees in 2019, the average age of directors serving on European boards dropped 0.6 years on average from 2018 to 2019. For the purposes of this study, we considered year-to-date TSR from January 2019 to November 2019, averaged by industry. For the companies within Europe treated in this review, the average sector TSR performance has increased across the board. This might encourage companies to appoint younger directors that can bring innovation and new perspective on company boards.



Average overboarded directors across Europe (2019)



### 5

### Sweden and UK stand out as having the highest number of overboarded directors in Europe

While stakeholders are concerned over the ability of the director to perform all required responsibilities, countries have different definitions of what they constitute as overboarded. When considering the definition of overboarded as recommended by the country's own governance code(s), the UK and Sweden are the countries with the highest percentage of overboarded directors in Europe.

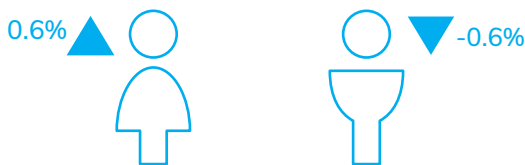
## Investors call for greater female board representation

Total female representation on European boards has grown over the past year (2019) by 1%, with some countries setting the pace for the rest. Although the overall level of gender diversity has risen across the surveyed indices, we can identify that many countries are significantly lagging behind.

## The ratio of female appointees increases by 0.6%

Data collected from CGLytics suggests that the total absolute number of female appointments decreased from 2018 to 2019. However, even though fewer women have been appointed to EU boards, the ratio of female appointments overall has increased by 0.6% while the ratio of male appointees has decreased by 0.6%. The total number of appointments in 2019 is generally lower than that of 2018.

Appointments by gender YoY (2018 to 2019)



## Inclusion of women in board leadership

As revealed in Diligent Institute's **A Few Good Women: Gender and Inclusion in Public Company Board Leadership** report, even though there is still a low representation of women on public company boards globally (22%), and in leadership positions within these boards, these women are taking an active role as board and committee leaders.

Diligent Institute findings show women assuming board leadership roles (board chair or lead director) faster than men. Interestingly two years faster in North America and seven and a half months faster in Europe, on average.

Additionally, the Institute reveals women are actively engaged on committees, representing 24% of committee members globally, with 21% of global board committee chairs being women.



Women are assuming board leadership roles faster than men

**2 years faster in North America**  
**7.5 months faster in Europe**

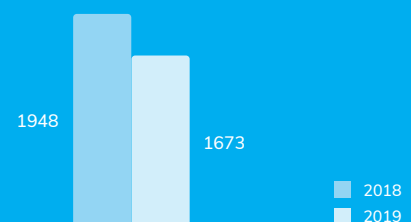
## Continent trailing behind quota set by EC

In 2017, the European Commission (EC) announced that it would push for a mandatory gender diversity provision for company boards. The EC stated that companies with more than 60% of males on their boards should prioritize the recruitment of female candidates when filling open board positions. The EC has been pushing to reach the goal of having at least 40% of women on company boards.

During 2019, the level of representation of women on European boards rose to 27%, falling behind the EC's proposals by 13%. Even though the female representation has increased compared to 2018 by 1% (26% in 2018), there is still much work to do until European boards reach their goal of 40%.

At the same time, in 2019 the total number of director nominees to boards was also reduced by 14%.

Board Appointments (2018 vs. 2019)



## Female representation on boards by country

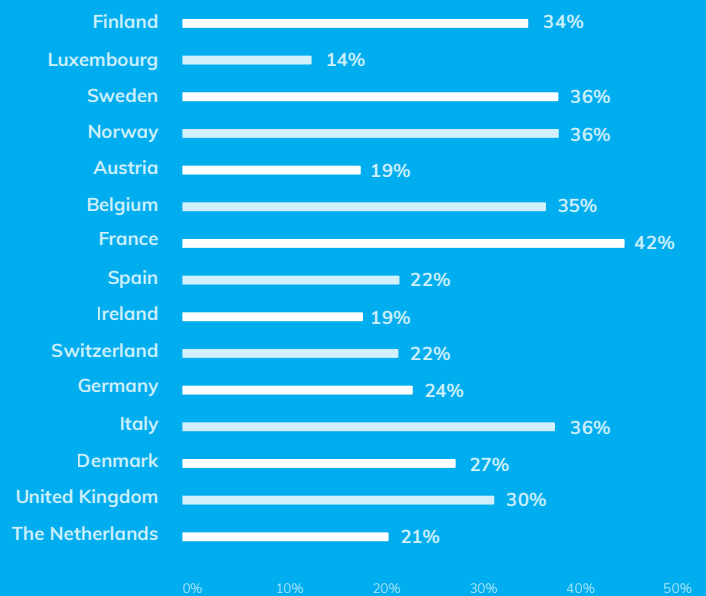
Almost all countries surveyed in this study saw an increase in the number of women on their boards between 2018 and 2019. The countries with the biggest increase of female representation are: United Kingdom (4%), Ireland (4%), followed by Denmark (3%), Spain (3%), Belgium (3%) and Luxemburg (3%).

The only countries that showed a slight decrease in average female representation were Sweden (2% decrease) and Norway (1% decrease). Interestingly, Norway has a gender diversity quota of 40%, indicating that the Norwegian companies covered by CGLytics are slightly behind the level of female board representation that their code suggests. However, Norway still shares the second highest place among European countries in terms of average gender diversity, together with Italy and Sweden.

One of the most interesting observations is gender diversity in The Netherlands. The Dutch corporate governance code sets the target of 30% of gender diversity on boards. Data gathered from CGLytics, however, shows that the average female representation in The Netherlands is 9% lower than this threshold, when all Dutch companies are taken into consideration.

The female representation, however, increases significantly when we look only at the large cap companies (AEX), with an average female board representation of 28%.

### Average Female representation by country (2019)



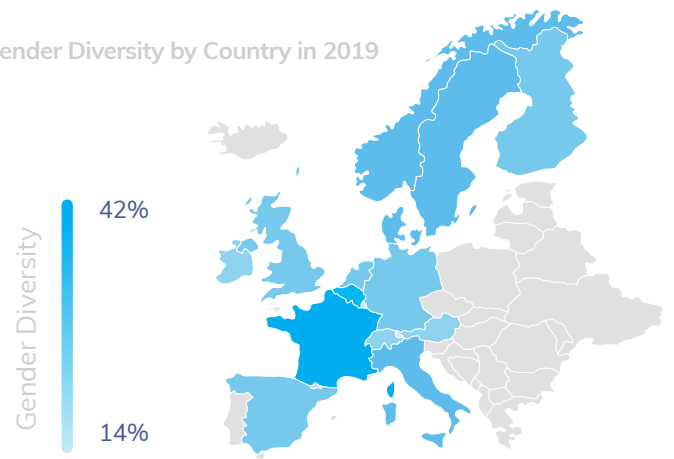
## Luxemburg and Ireland among the countries with the lowest female board representation

The gender diversity analysis performed by CGLytics again suggests that there is a mounting gap between the countries with the highest female representation and the ones with the lowest female representation.

The gender diversity gap between Luxemburg and France is as much as 27%, followed by 23% when comparing France and Ireland. Luxemburg's governance code does not currently have a target quota for gender representation and/or diversity, but rather states that there should be enough representation of both genders. Ireland, taking the lead from the UK's governance code, has a gender diversity quota of 33% that must be achieved by 2020.

Even though Ireland is one of the countries with the highest percentage change in female representation on the board during the past year, it is still lagging against the quota of 33% by 14%. Proxy season 2020 promises to provide a glimpse at how companies in Europe will strive to achieve the levels of gender diversity set by their respective corporate governance laws and/or best practice recommendations.

### Gender Diversity by Country in 2019





## 85.9% of females still available for nomination across Europe

Even though the representation of women on European boards has increased by 1% and women are appearing on multiple boards, CGLytics data show that these female board members are currently not overboarded and could be still available as candidates. Both female and male candidates face the same issue of potential overboarding however the criteria used for classifying overboarding does differ between markets.

Because countries apply different criteria to determine overboarded directors, CGLytics has examined overboarding using two methodologies for standardization.

The following two scenarios were used to determine overboarded directors:

- A** Executive directors are considered overboarded if they hold more than two additional non-executive board positions at outside companies. (For the purpose of this research, a chairmanship position will count twice for a non-executive director position. For directors with no executive positions, they could hold up to four non-executive directorships in total)
- B** Overboarding based on corporate governance codes. (by country)

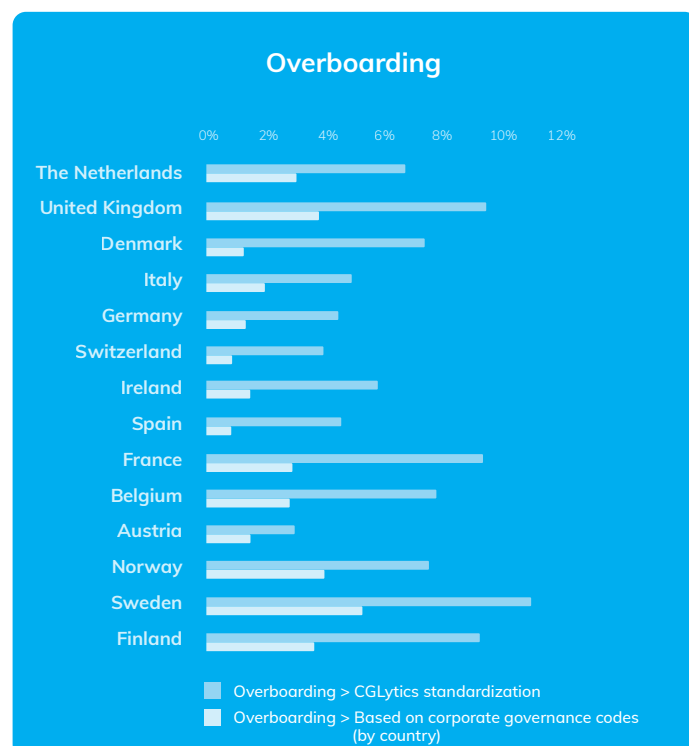
Duties and expectations of board members are increasingly complex and demanding. Shareholders are continuing to seek assurance that directors and executives alike have enough time to perform their boardroom duties. In addition, proxy advisors have historically held firm (per their proxy voting guidelines) that they will recommend voting against directors and executives that they consider to be overboarded.

Data from CGLytics suggests that when scenario A is considered, the country with the highest percentage of overboarded directors is Sweden, with an average of 11%. Sweden is followed by closely by United Kingdom, France and Finland, all of which have an average result of 9%.

When scenario B is examined, Sweden remains the country with the highest percentage of overboarded directors, at 5% (based on their country corporate governance code). The United Kingdom and Finland also remain in the second place with an average percentage of 4% of overboarded directors. Norway, in this case, switches places with France at 4%.

Our findings suggest that a total of 85.9% of females and 86.7% of males that currently hold directorship positions in Europe can be nominated without facing any potential overboarding issues (using scenario A). As such, not recruiting female candidates due to alleged overboarding concerns proves to be an ungrounded reason for companies to defend a lack of gender diversity.

Directors that can be nominated without overboarding concerns (scenario A)



## Directors are getting younger, with the average age decreasing to 58.2 in the past year

Even though boards are predominantly composed of directors in the higher age brackets, CGLytics has observed a slight decrease (of 0.6 years) in average age of the indices covered in this report. Most of the appointments in 2019, however, were directors within the higher age brackets. The decrease in average age suggests that boards are making a move to fill open board positions with younger nominees, who are often perceived as innovative and less risk averse.

In 2019, there were 275 fewer total board appointments than in 2018. While this overall decrease could potentially explain the decrease in older director appointments, we also observe that the appointments of younger directors did not decrease. On the contrary, the number of younger candidates only slightly increased.

### Total board appointments (2018 & 2019)\*

	2018	2019
Age Range	Board Appointments	
20-35	12	14
35-50	405	332
50-65	1087	898
65>	147	134
<b>Total</b>	<b>1.651</b>	<b>1.378</b>

\* Disclosure of age is not uniform across all the indices covered by this report.

### Director age diversity representation by sector\*\*

Sector	Total companies	25-35	35-50	50-65	65 >
Industrials	233	11	183	229	183
Financials	306	9	225	300	230
Utilities	45	4	36	45	32
Consumer Discretionary	161	13	129	154	113
Materials	105	2	78	104	84
Information Technology	85	8	71	83	54
Communication Services	76	4	63	75	56
Consumer Staples	77	7	55	76	57
Energy	46	1	29	46	38
Health	85	2	63	85	59

\*\* Companies that have at least one director within each age bracket.

Age diversity has also been at the center of boardroom discussions over the past several years. Many companies have included in their articles of association age limits for board members. However, despite such changes, our data suggests that only five percent of European companies surveyed for this report have directors in the age bracket of 20-35, with 76% having representatives in the age bracket of 35-50 and 98% having representatives in the 50-65 age range. A large percentage of companies also have representatives in the age range of older than 65 years (74%).

Similar to the efforts to increase gender diversity, companies are slowly beginning to understand the importance of age- diversified boards. Age diversity as a focus point when refreshing board positions can bring about a larger pool of directors who carry with them new perceptions, ideas and stratagems.

The research conducted by CGLytics on European company boardrooms reveals that companies are making the effort to improve gender and age diversity. At the same time, there is still work to be done in order to reach the desired goals and thresholds. In order to succeed and have boards that provide equal opportunity to both genders and all ages, companies will have to look at different candidates than what they have considered in the past, and across a broader pool.

New ways of searching and identifying potential candidates are currently being explored for succession planning and board refreshment. In light of these needs, CGLytics has gone one step further by developing a networking tool that shows users the simplest path to connect with potential candidates.

By providing intelligent insights and tools, CGLytics' solutions empower companies, directors and their nomination and governance committees to take matters into their own hands. With new ways of searching, finding and connecting with executives and professionals, tools offered by CGLytics can be used to supplement traditional recruitment agencies.

With instant insights and real time data at their fingertips, companies can quickly identify diversity or skills gaps, and build a board with the right composition. By independently and proactively engaging with the most suitable prospects from the start, companies will be empowered to considerably reduce their exposure to reputational and governance risk.

## References

[Diligent Institute. \(2019\). A Few Good Women: Gender and Inclusion in Public Company Board Leadership.](#)

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If you would like to know more about the Director Networking capabilities available in the CGLytics platform, along with other powerful analytics and tools to manage your governance risk, **contact CGLytics** for a free consultation or demonstration.

## APPENDIX A

Please see below for a full breakdown of the countries and relevant indices per country used for the purpose of this study.

Country	Indices
The Netherlands	AEX, AMX, AScX, NL Other
United Kingdom	FTSE100, FTS250
Denmark	OMX Copenhagen 20
Italy	FTSE MIB, FTSE Italia Mid Cap
Germany	DAX, MDAX, TecDax
Switzerland	SMI, Swiss SMI Mid Cap
Ireland	ISEQ Overall
Spain	IBEX35, BCN Global, IGMB
France	CAC40, SBF 120
Belgium	BEL20
Austria	ATX
Norway	OBX
Sweden	OMX Stockholm 30
Finland	OMX Helsinki 25
Europe	EURONEXT 100, EUROSTOXX 50, EUROTP100

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