

HEIDRICK & STRUGGLES

European Corporate Governance Report **2011**

Challenging board performance

foreword by **Antonio Borges**

European Department Director, International Monetary Fund

How does your board compare?

To what extent do you agree with the following statements?

		<i>Strongly Disagree</i> > <i>Strongly Agree</i>				
		1	2	3	4	5
Process and Structure						
1	The mix of board competencies is adequate and allows directors to engage effectively with business issues and changing conditions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2	The board reviews top talent performance effectively and is appropriately engaged in succession planning	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3	Board committees improve the overall effectiveness of the board	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4	The board has the right level of exposure to the senior management cadre	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5	Director commitment meets or exceeds expectation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6	The evaluation of board performance has delivered maximum value	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Profiles and Competencies						
7	The board has enough depth of experience to constructively challenge management	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
8	The board combines the necessary range of skills and perspectives required by the corporate strategy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
9	There is a good balance between director independence and engagement with the management	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
10	The board's remuneration scheme for directors is attractive	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Culture, Behaviours and Team Dynamics						
11	The board operates with the optimum culture for its needs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
12	The leadership style of the chairman encourages excellent team dynamics	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
13	The board dedicates enough time to identifying its own improvement opportunities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Through our interviews with senior board members and corporate governance experts we identified 13 statements that are critical to consider when assessing board performance. **How does your board rate?**

Board Performance

The behavioural challenge

Foreword

The continuing economic uncertainty and accompanying high profile governance ‘failures’ in the last two years mean that there is now greater attention on the boardroom than ever before. Directors of Europe’s leading companies are required to operate in an increasingly exposed and complex environment that consequently demands new levels of time commitment and engagement, and most importantly, improvements in board performance.

At such a time, a deeper understanding of ever-evolving corporate governance standards and performance issues is critical: the ability to answer complex questions of relationships, diversity, remuneration, evaluation, the role of the chairman and optimum boardroom culture can be the difference between flourishing or failing as we emerge from the recent turbulent times. Boards whose members possess a profound grasp of best practice in these areas are able to move beyond a compliance and process-driven view of the boardroom to one of world-class, value-adding, performance.

This seventh corporate governance report by Heidrick & Struggles offers a fresh and comprehensive perspective on these key issues and provides the same analytical rigour that has made the prior publications required reading for those in and around the boardroom.

I commend this report and the insight it provides.

Antonio Borges

*European Department Director
International Monetary Fund*

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Challenging Board Performance

Introduction

It is much harder to be a director now than it was ten years ago. Increased accountability and scrutiny, multiple media and stakeholder pressures and shareholder activism are all contributing to making the job a lot more onerous and risky.

Until the global financial crisis took hold, the governance debate was mainly about creating checks and balances, process rules and structure. Despite some progress up to that point (based largely on carefully commissioned and widely adopted guidelines), many boards, even of very large and sophisticated companies, are still found wanting.

All of this good work, on its own, simply hasn't been enough.

Why is this?

There is of course no simple answer, but we observe that despite rigorous efforts to raise governance standards, insufficient attention has been paid to the behavioural as opposed to the technical challenges in boardrooms, such as the evolving role and required style of an effective chairman, team dynamics, optimising delicate and complex relationships (especially as between the independent and executive directors), enhancing diversity and above all, the creation of a positive and thriving culture in the boardroom.

It is for this reason that our 2011 report draws upon the insights of a wider group of European opinion leaders, to explore these challenges, as well as continuing to provide an update on progress in the structural / process aspects of governance. So we started our study by asking 13 key questions, to which we have in the course of our research, investigations and conclusions, uncovered suggested solutions. These questions relate directly to our 13 section headings.

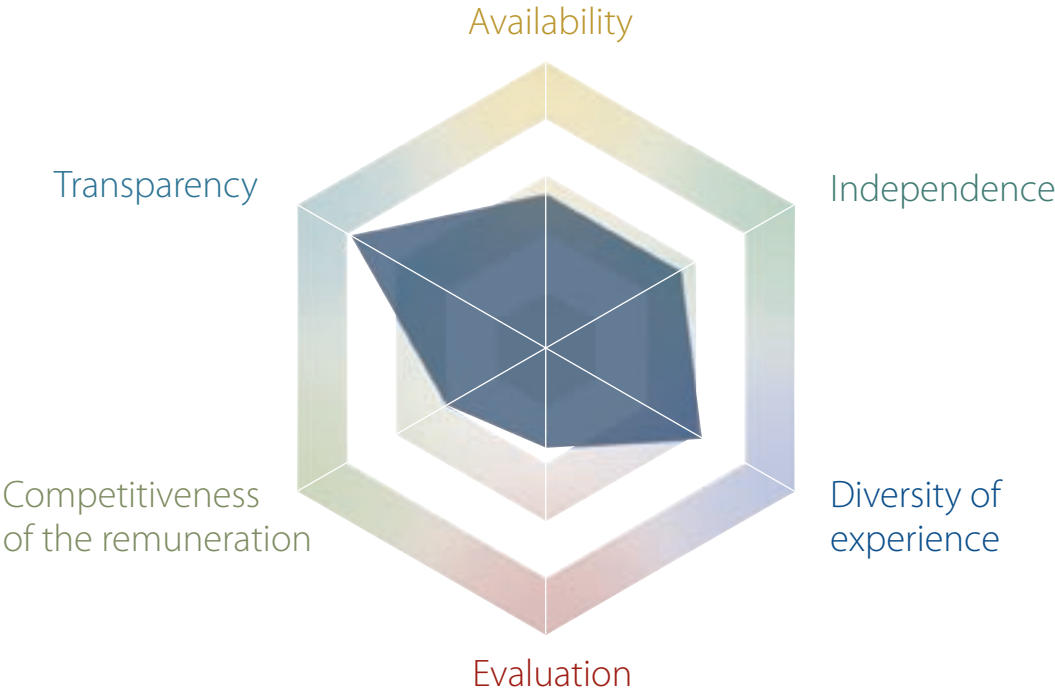
In our view it all comes down to the evolution of effective leadership in the boardroom and the impact of the failure to mitigate the risks associated with malfunctions of leadership. All forms of damage, resulting in one way or another from operational, technical, financial or reputational crises within a company, trace back to failures in leadership, which the board must ultimately be accountable.

European overview

In the twelve years since our first report on the state of corporate governance in Europe, we have seen a profound change in the scope, complexity and impact of the multiple forces that shape the boards of the region's leading companies.

To reflect this change, we no longer provide country-specific ratings and instead are illustrating our results across six key areas (*fig 1*).

figure 1
The state of corporate governance in Europe



Availability

The availability score is the average of 13 criteria, classified into three categories: the actual number and attendance of meetings; the structure of committees and the number of board positions held by the chairman and directors. There is a 30-point spread between the 15 country minimum and maximum results – the lowest spread of the 6 dimensions.

Independence

The ratio of independent directors on the board and each committee, independent chairmanship, and the background of the chairman (for example CEOs who have taken a chairman role upon retirement) are combined to create this rating. We note high divergence across Europe in this area (a 51-point spread).

Diversity of experience

Diversity of experience is made up of 12 criteria. Some of them measure tangible aspects of diversity (e.g. nationalities on the board, diversity of backgrounds, CEO representation) while others look at the potential for change in the boardroom (e.g. length of tenure, turnover, staggering of terms). Also, we quantify the experience gained by the members of the boards from the variety of their other board roles in public companies and also in the private and not-for-profit sectors. The outcome is a less dramatic picture of diversity in Europe than is sometimes presented, though significant further progress still needs to be made in many countries.

Evaluation

Evaluation takes into account the frequency, the process and the leadership of board evaluation. With a 45-point spread between the minimum and maximum results and relatively low scores overall, we believe evaluation is an area of significant potential for future improvement.

Competitiveness of remuneration

The average of remuneration levels. Boards are increasingly competing for talent in Europe and whilst remuneration is not cited as the main incentive for board work, we note that there is the greatest divergence in this area.

Transparency

The transparency score shows whether companies publish standard information on board directors and corporate governance. With the standardisation of information, we note the relative harmonisation of disclosure in Europe with a few exceptions, namely the disclosure of individual remuneration in some countries (*fig 2*).

figure 2

Availability of director information

% of companies providing information

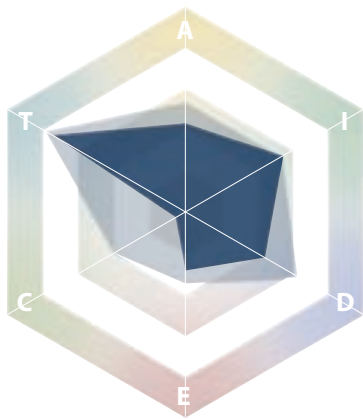
	2011	2009	2007
Identification of independent directors	86%	88%	86%
Frequency of meetings	95%	95%	98%
Age of directors	72%	73%	72%
Start and end of tenure	85%	84%	82%
Directors' main executive position	92%	92%	98%
Directors' other board positions	93%	94%	97%
Directors' company shares held	69%	75%	64%
Remuneration of directors	89%	84%	80%
Remuneration structure	63%	72%	n/a
List of committee members	94%	95%	99%
Report of activity of each committee	82%	75%	n/a

figure 3

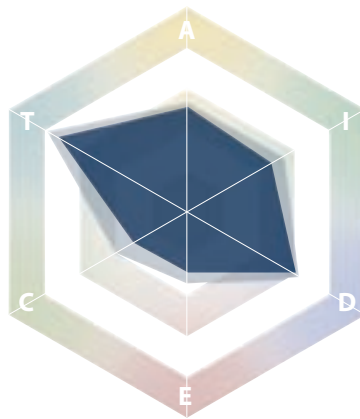
The state of corporate governance in study countries

■ Country ■ European average 2011

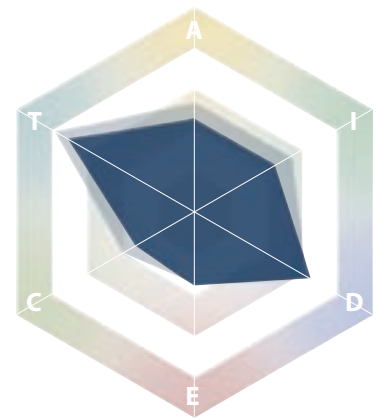
- A Availability
- I Independence
- D Diversity of experience
- E Evaluation
- C Competitiveness of the remuneration
- T Transparency



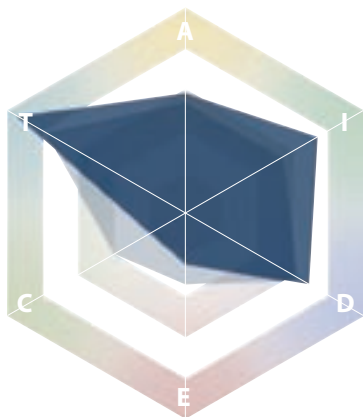
Austria



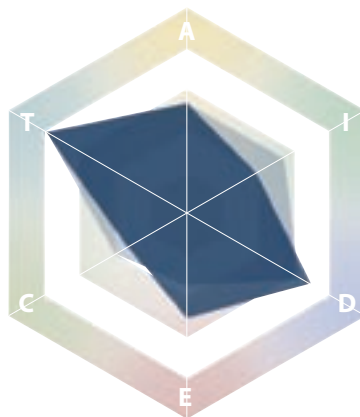
Belgium



Denmark



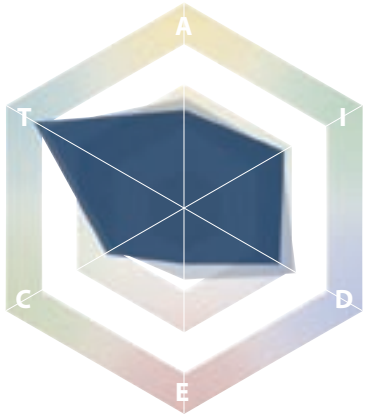
Finland



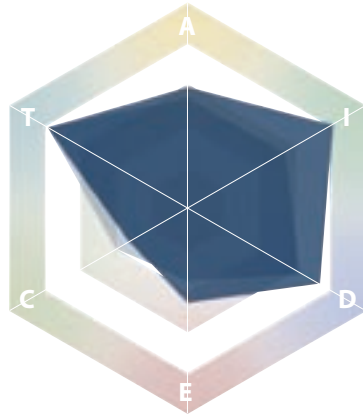
France



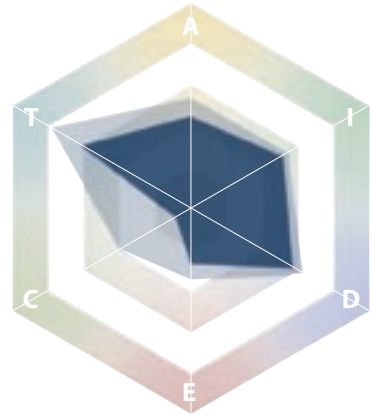
Germany



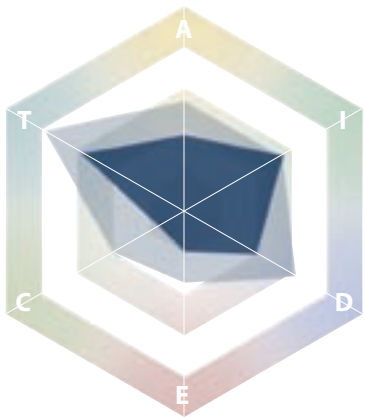
Italy



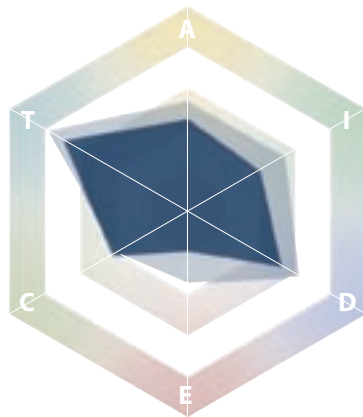
Netherlands



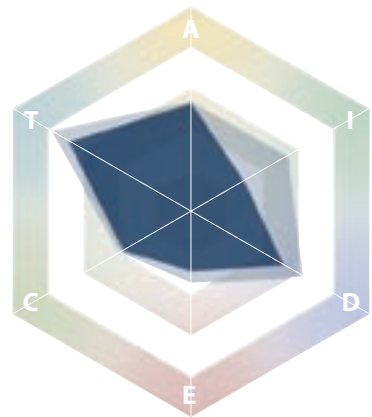
Norway



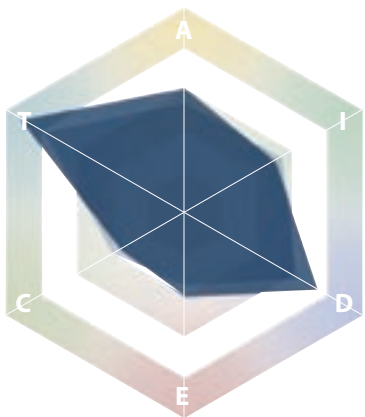
Poland



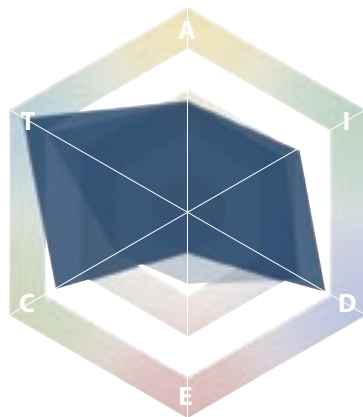
Portugal



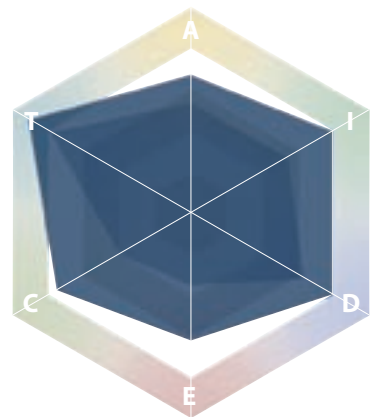
Spain



Sweden



Switzerland



United Kingdom

Methodology

Benchmarking and behaviour

Boards are increasingly asking for any form of performance evaluation to take two factors into account. The first is benchmarking. Companies want to hear how their board compares with their peers or with best-in-class boards, across a number of measures. This request reinforces the vision that originally led us to offer a candid and objective barometer of corporate governance in Europe.

The second demand is for pragmatism in the approach to assessing corporate governance. Having the right structures in place is not a guarantee of a well-functioning board. Whilst the hard factors constitute the framework in which the board operates, it is necessary to cover the softer elements of board effectiveness. As external observers of dynamics in the boardroom, we have a privileged position to analyse best – and worst – practices, and this report shares examples of what we have witnessed.

Our report seeks to offer operational tools for all boards to reflect upon effectiveness. To achieve this, it is organised around 13 areas that all boards should strive to address in their quest for enhanced performance.

“The board must ensure a system is in place to manage risk and bring the right issues to their attention.”

Three distinct inputs

We used three sources of input to help us to understand the current corporate governance landscape (*fig 4*):

Data analysis

Our data collection process has remained consistent since 1999. Our team of data collectors analyses information from the annual reports locally, for a better understanding of national specificities, and is coordinated centrally to ensure quality and consistency. More than 170,000 specific data points form the basis of our analysis.

Observations of best practice

For the first time, this report includes examples of best practices that have been observed or recommended. Obviously, given the different board structures and the various corporate governance environments within Europe, not every recommendation will fit every board. However, we hope that some of these ‘tips’ will encourage best practice.

Stakeholder interviews

To provide an additional perspective, we conducted structured interviews with 16 senior experts across Europe on corporate governance including chairmen, CEOs, board directors, academics and other experts. Many of these individuals play prominent roles in shaping / influencing regulatory frameworks and all are actively involved in the broader corporate governance debate.

figure 4

Our information sources



Board performance and leadership risk

At the heart of our vision for enhanced board performance is the question of risk, specifically leadership risk (fig 5). Within the context of the board as an effective decision-making authority for a global company, we have developed an approach to reviewing board effectiveness that we structure around three areas of risk and underperformance. We have used this approach to conduct our interviews, structure our data collection and present our findings.

"I think there is a real challenge for boards: how do you go from good process and governance to delivering substantive results and value-adding risk mitigation?"

figure 5

Areas of leadership risk



Company and country samples

We selected the top public companies based on the reference stock exchange indices, as follows: Austria (ATX), Belgium (BEL20), Denmark (C20), Finland (OMX Helsinki), France (CAC40), Germany (DAX30), Italy (S&PMIB), Netherlands (AEX), Norway (OBX), Poland (WSE), Portugal (PSI20), Spain (IBEX35), Sweden (OMX Stockholm), Switzerland (SMI) and the United Kingdom (top 50 of the FTSE). In response to the growing intensity of the corporate governance debate in Europe, we have enlarged the scope of our research to include Norway and Poland for the first time. Therefore, data in this report is based on the analysis of the 2010 annual report of over 400 European companies.

Whilst this report no longer comprises individual country sections, country-specific charts and information can be found on our internet site on www.heidrick.com/cg2011 where we have also published two supplements to this report on Turkey and South Africa.

Board structures in Europe

It is important to recognise the difference in the legal structures that influence boards, their mission and the type of governance issues challenging the board. Jurisdictions, societal models and regulatory frameworks shape the nature of director duties and the expectations that they face.

Figure 6 illustrates the three types of board structure in Europe and Figure 7 shows their prevalence in each geography.

Unitary system

The fully unitary system where there is a single board comprised of non-executive and executive directors. This system is prevalent in the UK, Spain and Italy. However, we observe that many of the unitary boards are moving closer to the mixed system: on 30% of PLC boards observed, the CEO and the CFO are the only executives in attendance, creating an internal imbalance that to some extent separates the main board from the executive committee as two distinct entities.

Two-tier system

The two-tier system, found in all German and Austrian companies, is also widespread in Denmark, Finland, Netherlands, Norway, Poland and Switzerland. This system consists of a supervisory board of non-executive directors and a separate management board of executive directors.

Mixed system

The mixed system of two boards (a non-executive board and an executive board) meeting separately, but usually with the same chairman and CEO and some executives on the non-executive board. The main challenge under this system lies in the exercise of chairmanship when there is a combined chairman and CEO role.

figure 6

Board structures in Europe

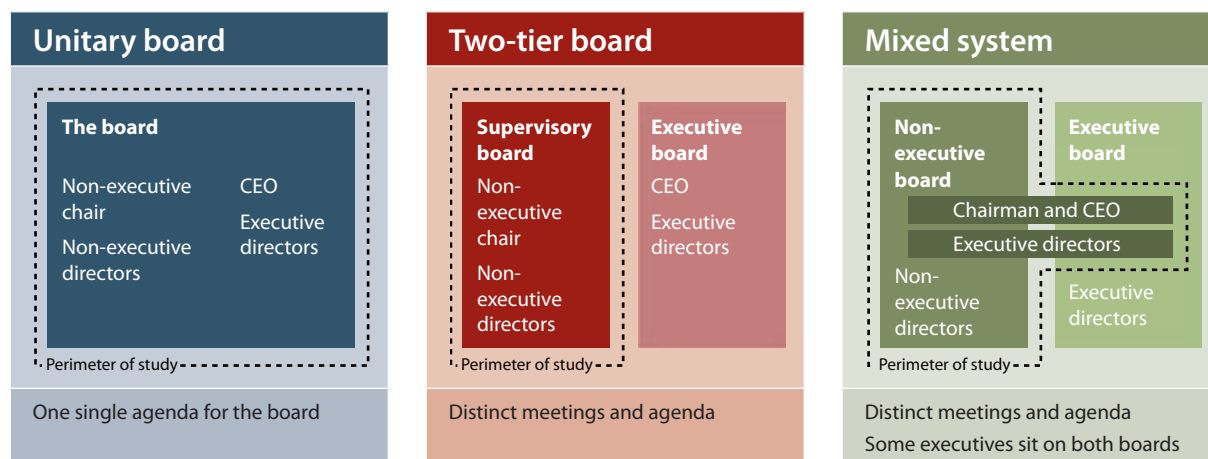
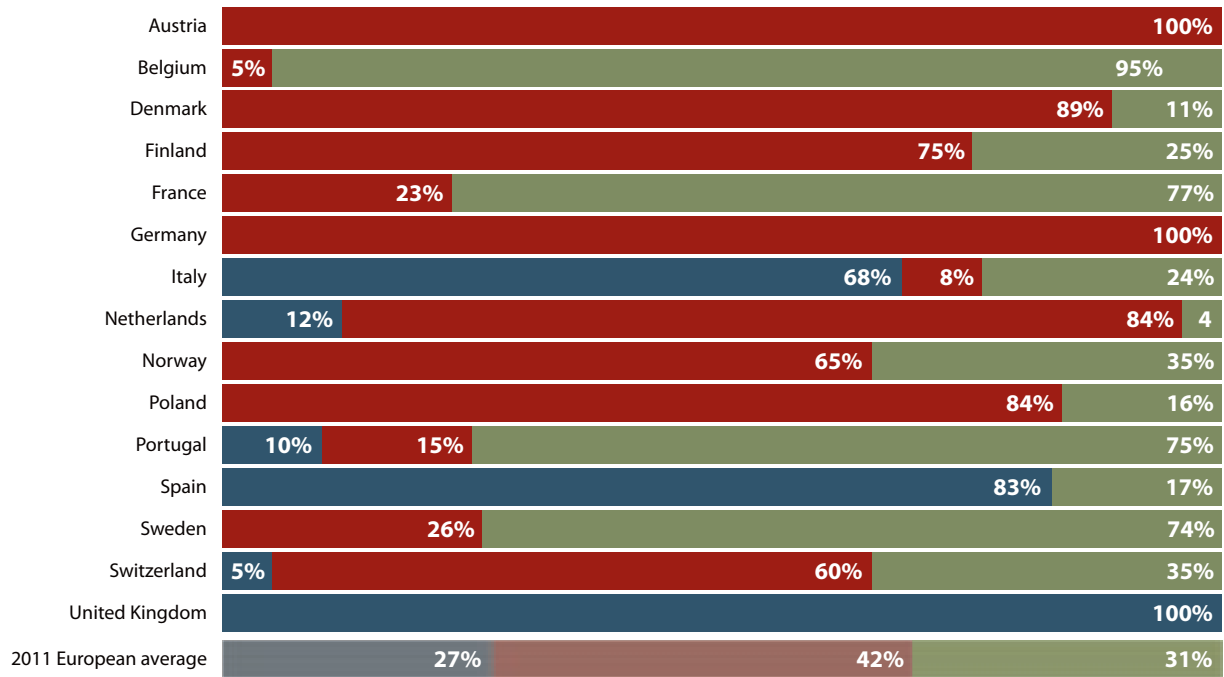


figure 7

Prevalence of board structures in Europe

■ Unitary board ■ Two-tier board ■ Mixed system



Process and Structure

1 Adapting to evolving conditions – the balance between continuity and the need for change

Whether boards operate on the unitary or two-tier system, the structure and processes through which they deliver value must enable optimum engagement and communication between the non-executive and the executive directors. Defining this interface and making it work well is where many boards still struggle.

Refreshment of the board on a regular basis is essential to its effectiveness. Companies evolve, and so should the board. The challenge is ensuring that the combination of required competencies on the board is adjusted to changing conditions. So, renewal of board members and the provision of continuous 'education' are both essential.

Length of terms

On average directors are elected for terms of 3.1 years, but 14% of companies still elect them for five year terms or longer (fig 8). Longer terms provide fewer opportunities to adjust the composition of the board to the changing

“There are two questions that boards should be asking themselves in helping to ensure they get the balance right: 1) What competitive advantage is the board delivering? 2) How does the strategic debate work between the board and the management?”

Good practice in 'Best in Class' boards

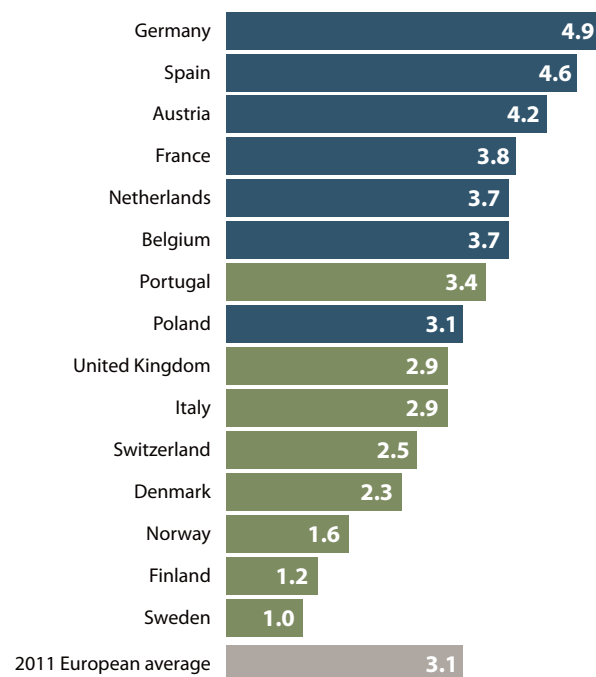
- Use targeted tactical external advice in special situations such as:
 - The need for a second independent opinion on a major, game-changing decision (e.g. a major acquisition or change of control event).
 - The need to fill a gap of specialist or extremely complex knowledge.

figure 8

Average length of board director terms

(length of appointment in years)

- less than 4 positions reviewed in 2010
- 4 positions or more reviewed in 2010



needs of the company. In Denmark and Germany, on average less than 2 directors per board had to be replaced or renewed in 2010, offering few opportunities for change.

“It is important to clearly manage directors’ expectations as to their likely length of tenure. This may be shorter or longer depending on the circumstances, but it should be defined.”

“Boards composed of directors with long tenures can fall prey to ‘group-think’ – i.e., reduced objectivity in questioning the decisions and opinions of the chairman.”

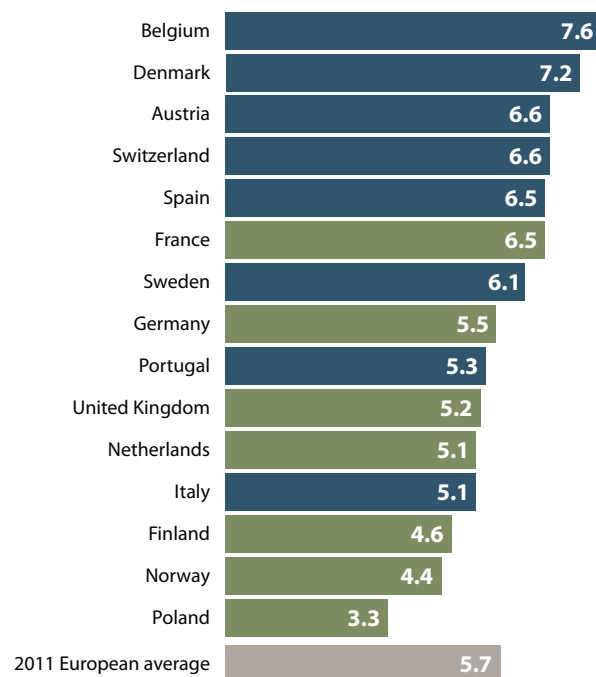
- Re-balance the time spent in board meetings on reviewing past performance, current issues and future strategy.
- Allocate quality time at board meetings to focus on the changing conditions (market, technology, and environment).

figure 9

Average time on the board

(length of actual time on the board in years)

- 9% turnover and below
- 10% turnover and above



Total time on the board

Contrary to intuition, we observe that total time on the board is not necessarily affected by the length of the terms. In Switzerland for example, where election occurs every 2.5 years, average total tenure is one of the highest at 6.6 years (fig 9). So shorter-terms are not a guarantee against inertia because of the tendency towards ‘automatic re-elections’. Directors on European boards have been in their roles for 5.7 years on average, with great variations across the region. While new countries in this

- Be proactive in refreshing the mix of skills and experience on the board to create a stronger focus on change versus continuity.
- Conduct deeper reviews of board performance that combine the assessment of process and structure with evaluation of behavioural competencies.

report (Poland and Norway) have relatively more recent directors, Belgium, Denmark, Austria, Switzerland and Spain have retained their members even longer than in the past. Boards in Sweden, Denmark and Switzerland did not take advantage of their capacity for turnover to bring in new directors.

“Of course, directors need to hold their positions for a long enough period both to learn about and add value to the business. But a combination of some directors with strong industry / company knowledge, and others who are replaced more frequently, achieves a good balance.”

Age of directors

Whilst there has been little change in the overall average age of directors, the spread in country age has widened from 6.5 in 2008 to 8 years in 2010 (54.1 years in Poland to 62.4 years in the Netherlands) (fig 10).

There is no doubt that encouraging senior executives to take up directorships somewhat earlier in their careers (something which many of the larger companies now do), is a positive development. But there is no rapid trend towards reduction in average age.

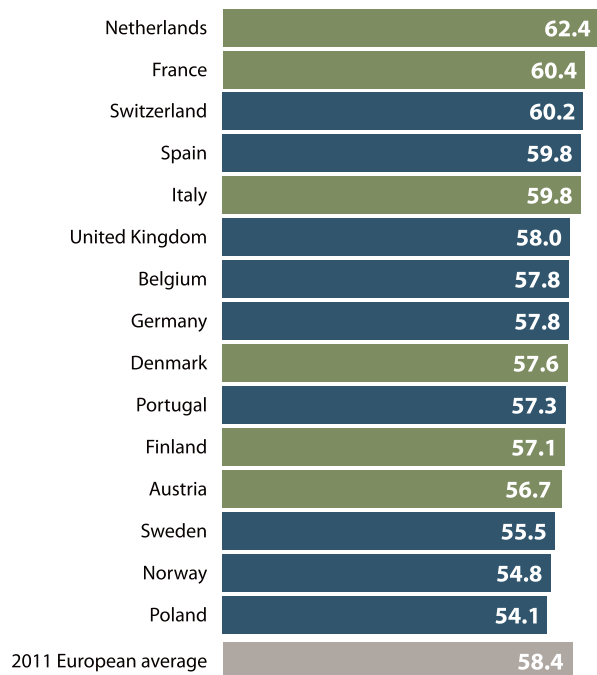
The benefits of appointing younger directors are well-known but many boards are concerned about appointing executives with no prior board experience – a recurring ‘catch 22!’ Also, in the turbulent economic climate of the last three years there has been some tendency to take a more cautious line by employing experienced directors. But this is changing.

“By defining more precisely the division of roles between the board and the executive management team, the balance between continuity and change becomes clearer.”

figure 10

Average age of directors

- new directors are younger by less than 4 years
- new directors are younger by 4 years and over



2 Leadership talent issues and succession planning

During the current turbulent economic environment there has been much debate about and increased focus upon the management of risk. All forms of damage associated with inadequate risk management, whether financial, operational, technical or reputational, trace back to malfunctions of leadership.

As a matter of fact, management literature abounds with references to the importance of assessing and selecting good people as a notable skill of high performing leaders. Like all other forms of business risk, talent issues can and must be systematically analysed by the board to support the right decisions.

“A company’s leadership talent is its single most important asset and has become a critical governance topic for boards. In general, the time and effort devoted by the board to the development and succession of its senior leaders is inadequate.”

Good practice in ‘Best in Class’ boards

- Integrate CEO succession planning in the recurrent business planning (for instance on the agenda of the annual business review), though not in the same depth every year. Bringing succession to the top of the agenda should not depend on the CEO’s initiative but is a responsibility of the board.
- Ensure the board reviews top talent sufficiently and is appropriately engaged in succession planning by conducting formal talent reviews at least once a year.

Understanding where top team talent of the future lies within the company, and bringing the talent question into the boardroom is a key responsibility of the board. Talent planning should be a continuous process, it is not an 'event' as most people seem to think. Constant attention also needs to be placed on mapping the best talent in the market, so that when key gaps appear, there is an assurance of access to top quality candidates.

Furthermore, the board needs to ensure that high potentials for top management roles from inside the company are well prepared to step up when needed and that these individuals are benchmarked against the comparable external market pool. In this dynamic process, talent requirements are assessed against the needs of the evolving company strategy, not just the 'current need'.

The board's attention on, and engagement in, top talent priorities should include the creation of dynamic succession plans for the board itself, and address the need for robust director recruitment and induction processes.

"The market has to innovate here. Clearly, financial literacy and knowledge of the relevant regulations are key, but it is not only CEOs and CFOs that possess these skills. Partners in professional services, senior public sector professionals and true diversity candidates can all do a great job and add real value to boards. I'm seeing more of these candidates coming to the fore, but not enough."

- Engage in interaction with high potentials (e.g. during field trips, invitation to pre-board dinners) and make sure the board is exposed to enough layers of senior management.
- Request management updates on key recruitment activities, people initiatives and insights on the external talent.
- Encourage a degree of interface between management and board members outside of formal board meetings (within the governance framework and duties of board members).
- Encourage mentoring and coaching relationships between individual senior management team members / high potentials and board members.
- Seek external, objective advice to extend the succession process to other, less obvious candidates and provide benchmarking.
- Establish formal succession plans for the chairman and for the CEO.

3 The evolving contribution of board committees

The board committees are the engine room of the board, and their value has increased both in terms of spreading the workload and also in providing greater depth, not only in the traditional areas of audit, remuneration and nomination, but also in areas such as strategy and risk – indeed, following the recent Walker report in the UK, which reviewed standards of governance in banks and other financial institutions, the creation of a risk committee in financial services companies is now mandatory.

Overall, the board remains accountable for the recommendations and actions of its committees. However, there is no doubt that high-performing boards are making increasing use of the committee structure, empowering them through strengthening their membership and granting them access to expanded resources.

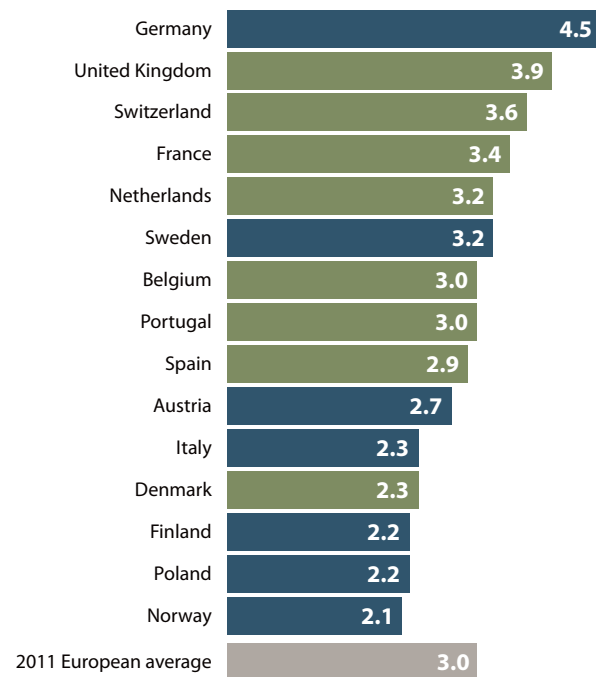
This, of course, has resulted in the workload of committee members increasing, with consequent impact on the time commitment that directors are now expected to make. This has in turn driven a need for closer attention to the detailed workings of the committees, including agenda setting, reporting arrangements, internal communications and the resources that are at their disposal.

The average number of committees is unchanged from our last report (3 committees per company) (fig 11), though

figure 11

Average number of board committees

- Same number of committees (n/a for Poland and Norway)
- Increased number of committees



“One cannot differentiate between a board and its committees. Too often people think in narrow terms and do not consider the immense importance of the committees and how they work.”

figure 12

Prevalence of board committees

	Audit	Remuneration	Nomination	Combined remuneration and nomination	Strategy	Ethics and social responsibility	Governance	Risk
Austria	100%	85%	70%	35%	25%	0%	0%	10%
Belgium	100%	90%	95%	70%	30%	5%	15%	10%
Denmark	95%	58%	11%	0%	11%	0%	0%	21%
Finland	96%	95%	58%	46%	0%	0%	8%	13%
France	100%	98%	95%	53%	58%	20%	38%	15%
Germany	97%	90%	93%	0%	30%	7%	40%	17%
Italy	98%	95%	30%	10%	5%	0%	13%	3%
Netherlands	100%	96%	96%	20%	16%	12%	24%	12%
Norway	100%	75%	15%	0%	0%	10%	10%	0%
Poland	89%	58%	16%	11%	26%	5%	21%	11%
Portugal	85%	100%	25%	20%	0%	20%	60%	20%
Spain	100%	100%	100%	100%	14%	3%	9%	14%
Sweden	100%	93%	100%	0%	0%	0%	4%	11%
Switzerland	100%	100%	80%	30%	5%	10%	60%	30%
United Kingdom	100%	100%	100%	0%	0%	53%	16%	29%
2011 European average	98%	91%	71%	27%	15%	12%	21%	15%

Good practice in 'Best in Class' boards

- Empower board committees by ensuring access to the same resources as the board.
- Clearly define terms of reference for each board committee. These should cover responsibilities, reporting requirements, internal and external engagement requirements / limits, and should be regularly reviewed.

there is wide variety across the region. In Norway, Poland and Finland, companies mandate only 2 committees on average, whereas in the majority of European countries, companies are continuing to set up more committees. This is partly due to the splitting of combined remuneration and nomination committees (combined in 27% of cases from 40% two years ago); and partly due to the launch of new committees, such as Risk, Strategy and Governance (fig 12). The greatest growth is in Denmark and Spain.

Audit committees

The audit committee is a European standard and is found in 98% of companies (up from 56% twelve years ago). Audit committees now meet more often than before at 6.5 times per year (fig 13), and one-third of companies have an audit committee whose members are all independent. In Germany, Austria, Denmark, Belgium, France and Spain, less than half of audit committee members are independent.

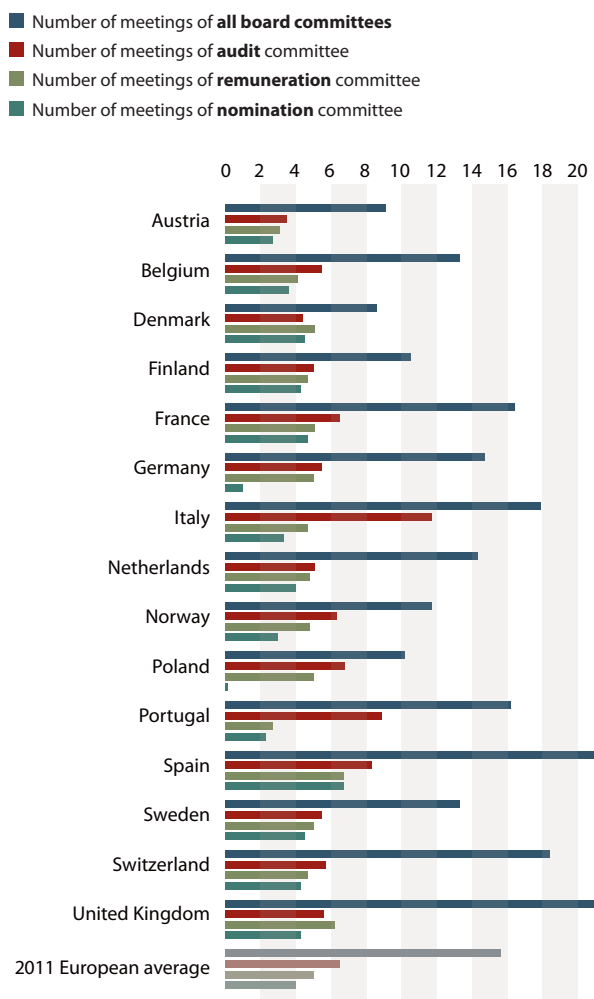
Remuneration committees

A significant 91% of companies have a committee in charge of remuneration, in 27% of these cases it is combined with the nomination committee, although we observe a clear decline in the number of instances of combined committees (found in 40% of companies in 2009 and in 47% of them in 2007). Remuneration and nomination committees are always split in Denmark, Germany, Norway, Sweden and the UK. Remuneration committees continue to meet more often than in the past, at 5 meetings per year (fig 13).

One of the most important roles of the remuneration committee is to inform decisions about the level and structure of the remuneration of the CEO. Excessive CEO

figure 13

Frequency of board committee meetings



- Create additional or ad-hoc committees in response to specific major strategic challenges and opportunities e.g. a potential change of control or a major reputational incident.
- Define the specific value that the addition of new non-executive directors will bring to the committees as well as to the board itself.

remuneration has become a very hot discussion topic. In the future, it is likely that attention will focus on the people who arranged and approved excessive remuneration. As boards will be expected to publicly justify their decisions, they will be more demanding about the preparatory work by the committee and the competency of its members. The remuneration committee is also involved in succession planning and the retention policy for the CEO.

Nomination committees

The lower occurrence of nomination committees (found in 71% of companies) results from different committee structures across the region: in Switzerland and Portugal, the governance committee is in charge of nominations; in some Nordic countries, the nomination process is mainly led by the reference shareholders outside the boardroom. We record four meetings of the nomination committee per year in Europe on average (fig 13).

Traditionally, the nomination committee is engaged in the appointment process for directors. Often these processes are too informal and we note three growing practices:

First, profiling of the board, as there is an increasing use of professional nomination processes with a clear brief and external benchmarking. Some national corporate governance codes require the chairman to describe the board profile, i.e. the long term plan for the company, the type of board necessary to fulfil this plan, the current board analysis and the steps to close the gap.

Second, nomination committees are getting involved in new directors' induction programmes to detail the kind of contribution that is expected from the board members.

Third, the nomination committee is usually very involved in the succession planning for the CEO because the chairman of the board is traditionally also the chairman of the nomination committee. The nomination committee needs to work with the remuneration committee on the retention of the CEO.

"The nomination committee is key. It is in charge of a structured process, it demonstrates the ability to take a longer term perspective and it is more legitimate to bring up the topic of board composition at regular intervals."

Additional committees

Alongside these three standard committees, one-third of companies set up between one and four additional committees. Strategy, governance, ethics, corporate social responsibility and risk are each present in 12% to 21% of European companies. Some of these committees are a national feature (e.g. strategy committees in France, governance committees in Portugal and Switzerland). Others mainly depend on the company sector. For instance, risk committees are predominantly present in the financial sector (47% of European financial institutions have a risk committee, against 6% in other sectors); corporate social responsibility committees are mainly found in energy, utilities and food. More of these specific 'new committees' were set up during the crisis to address immediate issues while the board continues to focus on the general running of the company and its growth. Risk committees bring a planned approach to company-wide risk to the board, but it is important that boards, as a whole, do not lose ownership of this issue.

4 Engagement between the board and senior management

Whilst the board and the executive team are united in their mission to advance the cause of the company (and through it the interests of the shareholders), they can become divided when it comes to major strategic questions, such as a potential change of ownership or an appetite for the financial risks associated with a large-scale investment. But, given that the highest possible level of engagement between the board and the executive is so valuable, these divisions must be managed and minimised.

The board's duty to interrogate and challenge senior management's plans can easily, albeit unintentionally, generate frustration and distrust. Indeed, it is the ability to minimise the potential for distrust between the board and its senior management, which is one of the most demanding skills required of a chairman.

Creating stronger engagement and rapport between the board and its senior management team can be achieved by a combination of increased informal contact (for example, dinners before board meetings), and regular invitations to the executives to attend and participate in board meetings. Regular one-on-one meetings between directors and executives during operational site visits can also be invaluable.

However, these less formal contacts need to be organised and treated responsibly, with due recognition of the chain of command and with the blessing of the CEO.

Good practice in 'Best in Class' boards

- Formally defining and clarifying the roles, accountabilities and deliverables of the chairman, the non-executive directors and the CEO.

“If direct contact between the board and the executive team by-passes the CEO, it can undermine his / her authority.”

Engagement and board structure

There was a vision in the past that the board should not interact with management because of conflicts of interest. We now see a move from the board being distant but objective, to being more participative. Also, stronger links with the management have become necessary because the question of talent has moved significantly further up the board agenda. Most boards desire increased exposure to the management but very few actually deal with this issue formally. Engagement takes place occasionally during ad-hoc assignments, in place of a formal, continuous and sustained interaction.

Methods and levels of engagement differ according to board structures. Unitary board members are naturally closer to the management as executives are sitting on the board alongside non-executives, or are called in for presentations. In countries where the two-tier structure dominates, supervisory boards are monitoring boards, as opposed to fully engaged and ‘challenging’ boards. The board’s oversight role prohibits interfering with day-to-day

management and further, directors must be careful when interacting with the executive committee in-between board meetings. However in Denmark and Germany, there is a feeling that boards have to learn from the Anglo-Saxon model and move away from the legalistic and formal approach to the role of the board. A more active role of the board to drive strategy implies that the board has an increasing link with management, who execute the strategy.

“The supervisory board should not enter into day-to-day management.”

“The 2-tier system often results in formalised meetings of the management and the board, with formal presentations and very little openness during discussions – the model used in the UK, in this sense, is a better one.”

CEO territory

Key in the relationship between the board and the management is the quality of the relationship between the chairman and the CEO. They need to be working together closely, but closeness should not be confused with complacency. The top question in this regard is the respect of the CEO’s ‘territory’.

“There should be a clear delineation of the roles and responsibilities of the CEO and chairman.”

When directors have access to executives, there is a risk of bypassing the CEO. This is potentially bad practice, as it could encourage political games, reduce the efficiency of the management, decrease the credibility of the CEO and create non-controlled reporting. This is why it is critical to define clearly which are the rights that the board needs to

- Invite members of the executive team to board and committee meetings from time-to-time both to make presentations and to take part in discussions. Systematically invite the HRD to the remuneration committee and the CFO to the audit committee meetings.
- Hold early stage general discussions of strategic priorities or shifts. Executives shouldn’t create the ‘finished article’ when creating strategic plans before presenting them to the board and thereby risking becoming defensive when these are challenged later. Early engagement means that the executives can get the best out of non-executive directors from the start and work together in the development of the strategy.

assert (e.g. to be well informed, to define and oversee the execution of the strategy) and which are the rights of the CEO. Conflict often arises because either the CEO or the board are not sure what their rights are, so there is a need to set them out explicitly and in writing.

“If co-operation or dealings between the board and the management team go any further, then it’ll start to eat away at the managing director’s authority – there’ll be greater potential for conspiracies and opportunistic behaviour in the management team.”

“It is difficult to walk the line between accessing closer information whilst not interfering with the executives.”

The changing role of the corporate board secretary, from administrative to advisory

The role of Corporate Board Secretary (CBS) is usually narrowly defined and too often focused on the secretarial responsibilities, i.e. minute taker, custodian of corporate governance or organiser of meetings.

Chairmen and CEOs should realise that the CBS can make a more strategic contribution by leveraging their position between board members and senior management on a daily basis. The CBS stands at a critical junction point: as executives, they are able to feel the pulse of the senior management; as secretaries to the board, they interact regularly with the non-executives. In all strategic decisions brought onto the board agenda, the CBS can improve the effectiveness of board meetings by advising the chairman on a large range of matters, e.g. optimising the timing, managing the information given to the board, monitoring

the market and enhancing the output of meetings. The induction of new directors should also fall into their remit.

Hence, a world-class CBS does not service the chairman but is becoming both advisor and sparring partner. Some of the core secretarial activities such as minute taking can be delegated, whilst greater emphasis is placed on the pertinence and quality of board discussions. As a ‘shadow cabinet’ advisor and ‘ear’ of the chairman, they proactively ensure that topics are prepared in depth. They can also lead a diligent and rigorous implementation process, backing up the decisions on behalf of the board.

This new role definition – from administrative to advisory – implies a substantial change in the profile of the CBS. Highly talented professional managers will increasingly be able to add value to the quality of boards and how they function, once the role is upgraded.

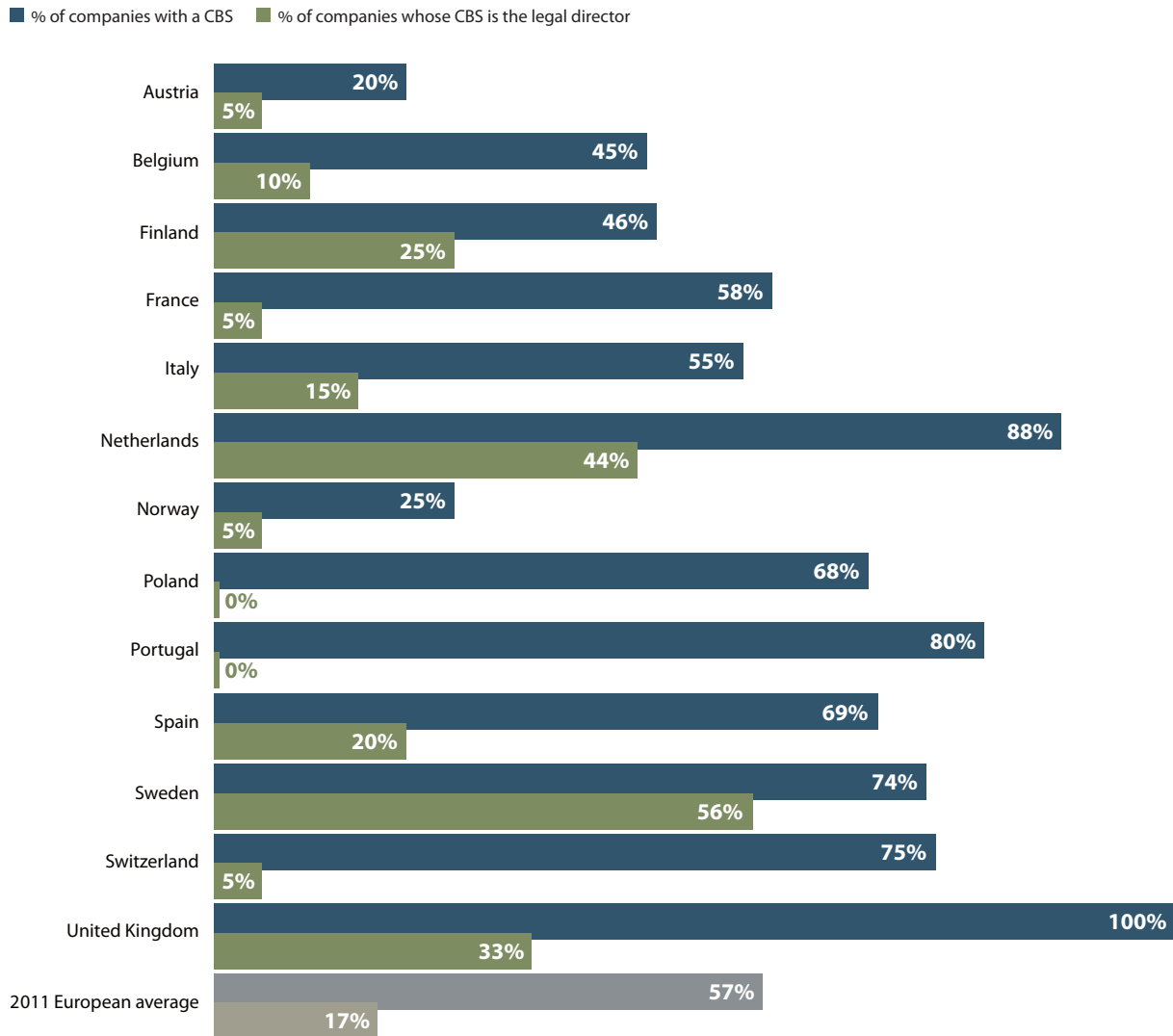
Data reveals that nearly one in two European companies has no corporate board secretary, with great disparity across the region (fig 14). While we found one in each UK company, they are widely missing in Austria, Denmark, Germany and Norway. Even where there is a CBS, the content of the role varies: in a majority of cases in Finland, the Netherlands and Sweden, the role is combined with that of legal counsel.

- Ensure that the non-executive directors do have input to the board agenda. When the executive dominates the agenda preparation, the board can become disengaged.
- Engage the board more proactively with the company’s top management group. For example, prepare a list of the 80 top executives and encourage board members to meet them and get their feedback.
- On some occasions, specify areas in which a director can add particular value and allow them to have a one-to-one relationship with the management. For instance, participating in a talent audit, a director could be more exposed to the top talent pool and have one-to-one relationships with the HR director. Such interactions should be carefully controlled and explicitly documented.

figure 14

Prevalence of corporate board secretaries

(data for Denmark and Germany is excluded as not representative)



“It is difficult to define the line between probing for deeper information insights / challenging recommendations and over-interrogating the executive directors in a way that creates distrust.”

5 Director availability and commitment

There is no doubt that the demands on directors, both in terms of their time and attention are increasing. But this needs to be broken down into two distinct categories: the demands on chairmen and the demands on other directors.

In the case of chairmen, especially of larger companies (and in certain countries), time commitments are increasing very substantially. This in turn makes it more difficult for anyone to hold more than one chairmanship (especially of large companies) in their portfolio. This is a major change from the current norm of multiple chairmanships being held in some instances.

In the case of other directors, the number of days required per directorship is increasing, such that it is now less easy for executives in full-time roles to accept external directorships.

But it is not just a matter of time commitment. There is more content and a growing awareness of the potential liabilities facing directors in public companies. This is putting pressure on the size of portfolios. Whereas currently it is not unusual for a director to hold five or six or even more appointments, this is likely to reduce. And, in our opinion, so it should – as it is not only the quantity of time but the quality of attention and concentration which these roles increasingly demand.

Even more than the simple question of capacity constraints, the point about availability is to have quality time, to be fully engaged and spend time on the right issues. Increasingly we see sitting CEOs reduce the number of non-executive positions they hold because they

don't think they can be available as needed. In parallel, companies are increasing the time demands to fulfil the escalating obligations of board service.

“The formal workload increase stems from more demanding regulatory requirements as well as good corporate governance recommendations. The informal part is due to the fact that boards increasingly have to be more pro-active and involved.”

Frequency of board meetings

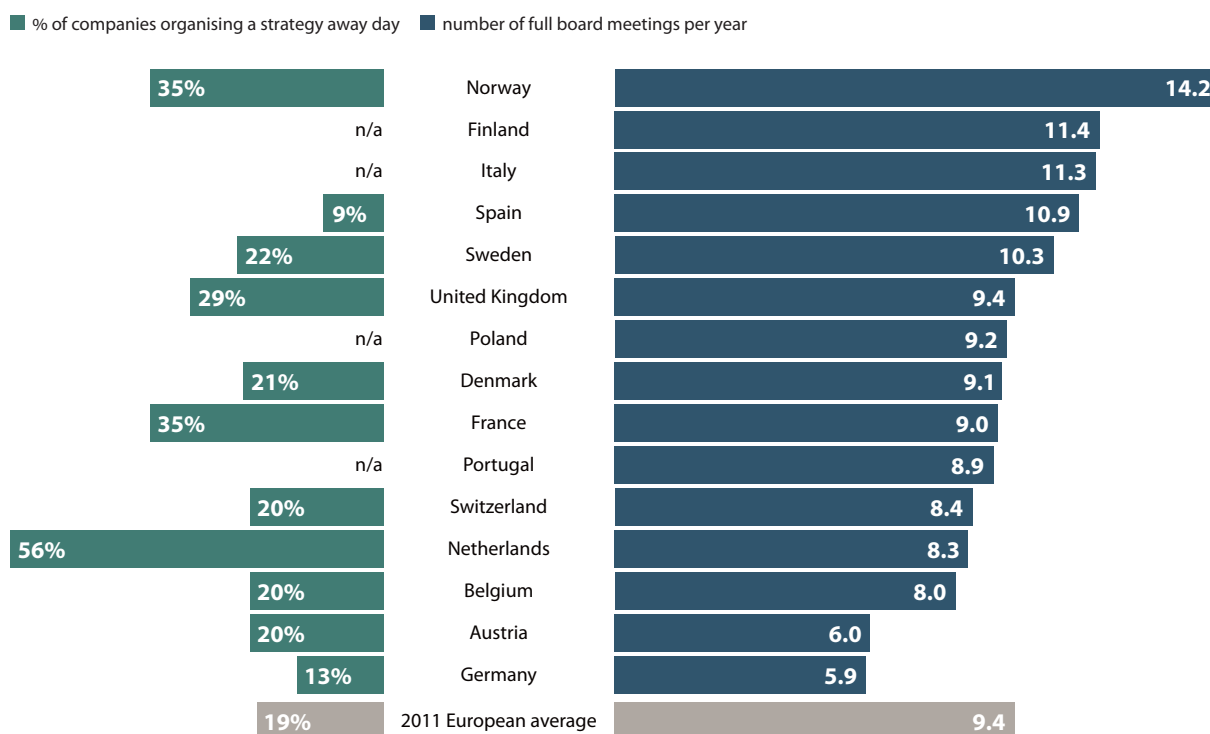
Following a continuous period of growth from 6.8 meetings in 1999, the average number of board meetings has stabilised at 9.4 per year (fig 15). While two-tier boards continue to meet less than others, the gap is closing. However, we notice that one quarter of European boards still meet 6 times per year or less (15% of boards meet 5 times or less).

“Board directors are increasingly required to spend more time in their roles and be even more involved – this is more than just a question of good practice. It is about meeting the expectations of all the key constituents, which the board serves: shareholders, employees and clients.”

figure 15

Frequency of board meetings

(average number of meetings per year)



In 19% of companies, one of the meetings is dedicated to corporate strategy review: 'strategy away days' or 'strategy retreats' are common practice in over one-third of companies in France, Norway and the Netherlands.

The greater demand on availability is also caused by the ever growing number of committee meetings. Total committee meetings per year is now over 15 meetings on average, a figure that has doubled in the last 10 years, reflecting both the higher presence of some committees and overall their expanding responsibilities and remit.

Attendance at board meetings

At 92% just as two years ago, the attendance ratio is stable both at European level and country-by-country (fig 16). Disclosure of attendance is still very limited in Austria, Denmark, Germany, the Netherlands, Norway, Poland and Portugal despite the commitment of these countries to transparency.

Attempts to link remuneration to presence at board meetings seem to have failed: attendance remains the lowest in Italy, France and Spain although companies in

Good practice in 'Best in Class' boards

- Ensure that the agenda and board meeting materials are properly prepared and distributed at least a week in advance. Materials should be accessible and structured so as to encourage participation for all members.

figure 16

Attendance at board meetings

(average attendance at board meetings, data sample for Austria, Denmark, Germany, Netherlands, Norway, Poland and Portugal are below 50% and therefore not included here)

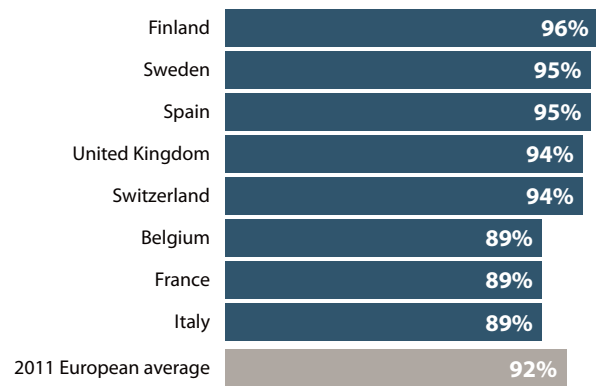
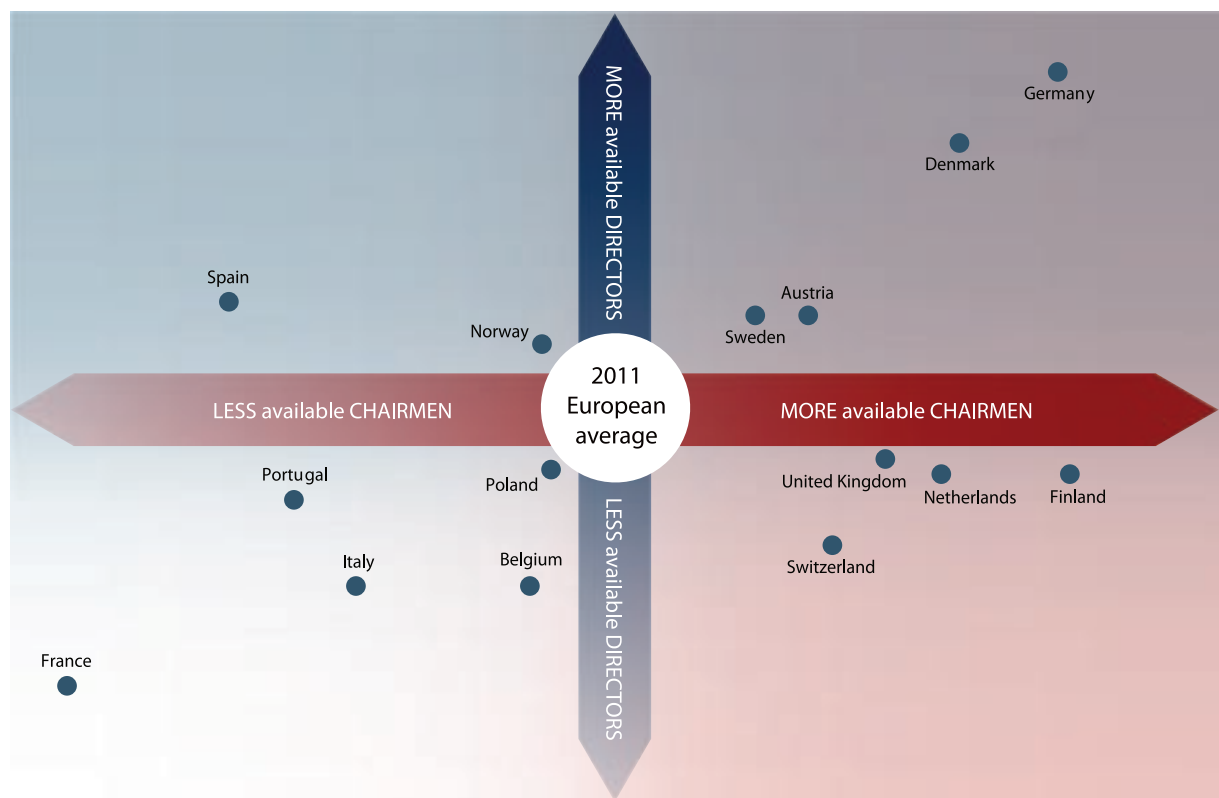


figure 17

Chairman and director availability

(based on average number of executive positions and non-executive positions in public companies)



- Make company resources available to personally support board members preparation for board meetings.
- Consider the use of innovative technology in situations where board members are unable to attend.
- Vary the location of board meetings to optimise attendance of board members and hold at least one meeting per year in alternate company office / facility rather than always in the global headquarters.

figure 18

Number of directors holding 3 or more NED roles in public companies



these countries have the highest proportion of variable fee, based on attendance. Findings in this report establish a correlation between low attendance and a high number of non-executive roles held by board members (in public and private companies and not-for-profit organisations) (fig 18). Calls to limit the number of board roles that each director may hold seem relevant in that respect.

Availability of the chairman and the directors

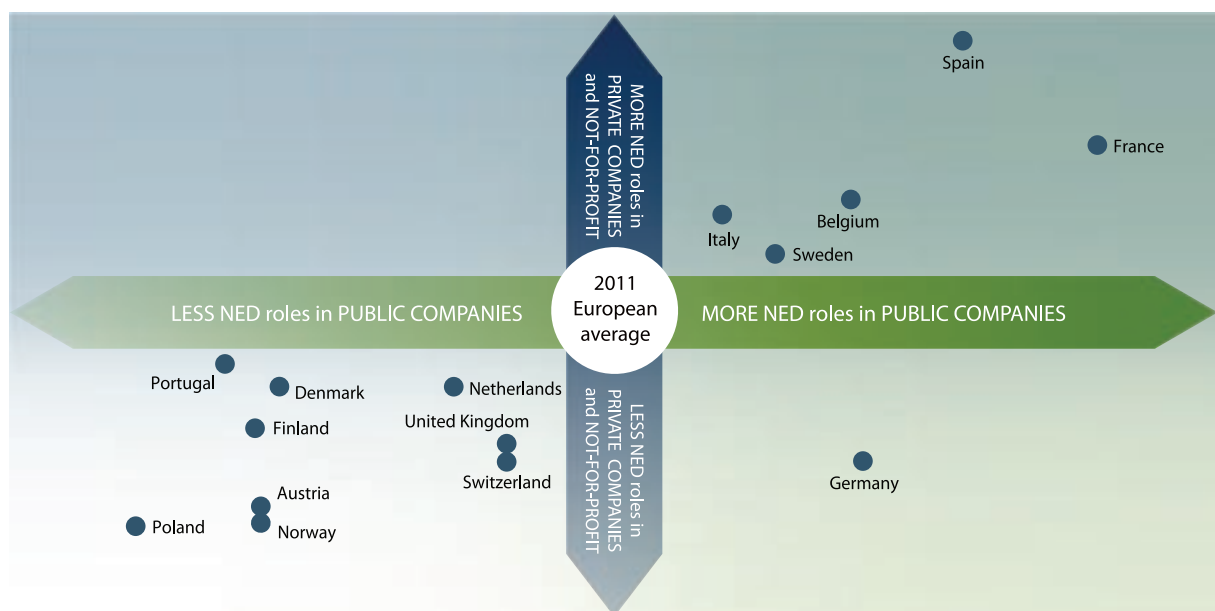
For each board, we calculated the total number of executive and non-executive positions that directors and chairmen hold in public companies. Figure 17 takes into account the average number of days for each type of position (i.e. a non-executive chairman role is more time consuming than a director role). Our findings reveal that France, Italy, Portugal and Belgium have the least available chairmen and directors; Germany and Denmark stand at the opposite end of the spectrum.

The power of the network

Companies build a network of relationships with other public companies, but also with private companies and the not-for-profit sector, through the various positions that each director holds. The scale and complexity of this network varies across the region: companies in Spain, France, Belgium, Sweden and Italy have access to over 60 other boards on average, but some boards have as many as 270 connections (fig 19).

figure 19

The power of the network



6 Improving the evaluation of board performance

Before the seismic impacts of the financial crisis, the evaluation of board performance and effectiveness was limited and patchy. For many boards it had become a formulaic, questionnaire-driven, box-ticking exercise, which reflected the low priority, and indeed value, that was being placed on it.

Even in our relatively advanced state of corporate governance in Europe, the sheer volume of governance failures, in large sophisticated companies across the region, has taught us an important lesson. From this has emerged a clear recognition that at least on a biennial basis a deeper and more qualitative review of board composition, performance, behaviour and team dynamics is best practice.

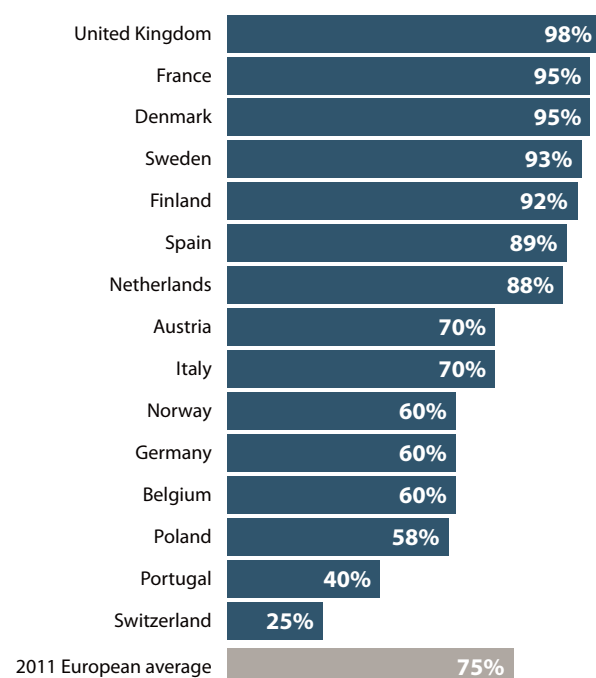
Such a review should not only examine board processes and structures, but should also identify experiential and technical gaps, challenge the diversity of the team, assess behaviours and interactions, and above all gauge the role and effectiveness of the chairman. The best boards are more than a collection of the best 'players'. It is above all the culture in the boardroom and the tone set by the chairman that marks them out. Finally, such a review should challenge the board to compare itself to other 'best in class' boards, both within and beyond its sector.

This is much more than a routine health-check. It requires considerable rigour and a high-level of collective self-confidence, not to mention a chairman blessed with humility and an open mind. It should result in a clear

figure 20

Frequency of board evaluation

(% of boards undertaking evaluation between 2008 and 2010)



development plan for the board as a whole and for its individual members, having digested challenging and even uncomfortable feedback.

It is important to bear in mind that a board is a team like any other, and that its behaviour and effectiveness is becoming daily more visible to its stakeholders and especially to its employees.

Frequency of board evaluation

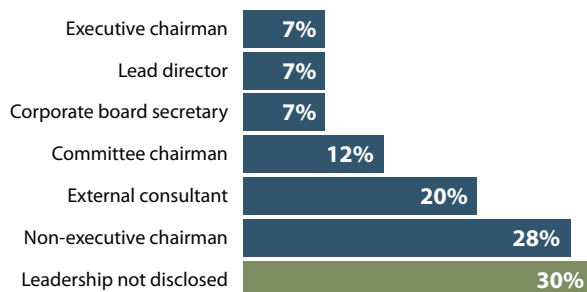
Board evaluation has become a regular, disciplined, event but is still a matter of conformance rather than performance. Three quarters of European companies evaluated their board in the last three years, indicating no improvement from our previous report (fig 20). Evaluation at least every three years has become a standard in the UK, France, Denmark, Sweden and Finland. In Switzerland and Portugal, it is possible that some boards may have performed board evaluation without communicating it in their annual report and this should be taken into account. In Poland, there is still low awareness or prior experience of evaluation. Boards are not yet used to engaging external evaluation parties. More worrying than these results is the very low percentage of evaluations led by an independent party – 37%.

“90% of current board evaluations probably fall short of what is needed.”

figure 21

The leading of board evaluation

(breakdown of who conducts the evaluation, totals exceed 100% as some evaluations are conducted by several people jointly)



The leading of board evaluation

Out of the companies who undertook an evaluation of their board in 2009, 30% did not disclose the name of individual / party who led the effort (fig 21).

Executive chairmen lead 7% of board evaluations namely in Italy, Spain and France. In Italy, the executive chairman always shares leadership with a senior director, though not independent in most cases. In other countries, executive chairmen lead the board evaluation alone in most cases, in breach of best practice.

Non-executive chairmen lead 28% of evaluations and in nearly all cases he does so acting alone.

External consultants conduct 20% of board evaluations. That proportion is evenly spread out across the region, with the UK leading the way with about one-third of board evaluations involving an external party.

As forecasted in our previous report, we note a growing involvement of **corporate board secretaries** (especially in France and the UK) and **committee chairmen** (France, Italy, Netherlands, Portugal, Spain and Sweden) in evaluations.

“Formal board reviews are only really powerful when done by an external advisor.”

“There are a very limited number of good suppliers.”

“To what extent are boards willing to expose themselves to a proper evaluation? Most aren’t.”

Good practice in ‘Best in Class’ boards

- Add comparable board, ‘best in class’ benchmarking to any board evaluation process.
- Develop a charter of expectations that defines every role on the board, which creates a template for evaluation of performance and a blueprint for the nominations committee when hiring new talent onto the board.

figure 22

Methods of board evaluation



“Conducting a successful, enriching board evaluation is extremely demanding and a mark of great chairmanship.”

Board evaluation process

The processes used to determine the types of output from an evaluation vary. Questionnaires mainly ask questions about the past, while interviews leave more space to discuss the future. Questionnaires are based on ‘closed’ questions whereas interviews allow open discussions and diversity of interpretations. The greatest added value comes from interviews and external facilitation. A disciplined, rigorous professional assessment and review of a board makes it possible to identify areas where improvement is needed and to pinpoint potential problems while they’re still in their early stages.

We recorded no real progress in the quality of board evaluation processes in two years. Half of companies still

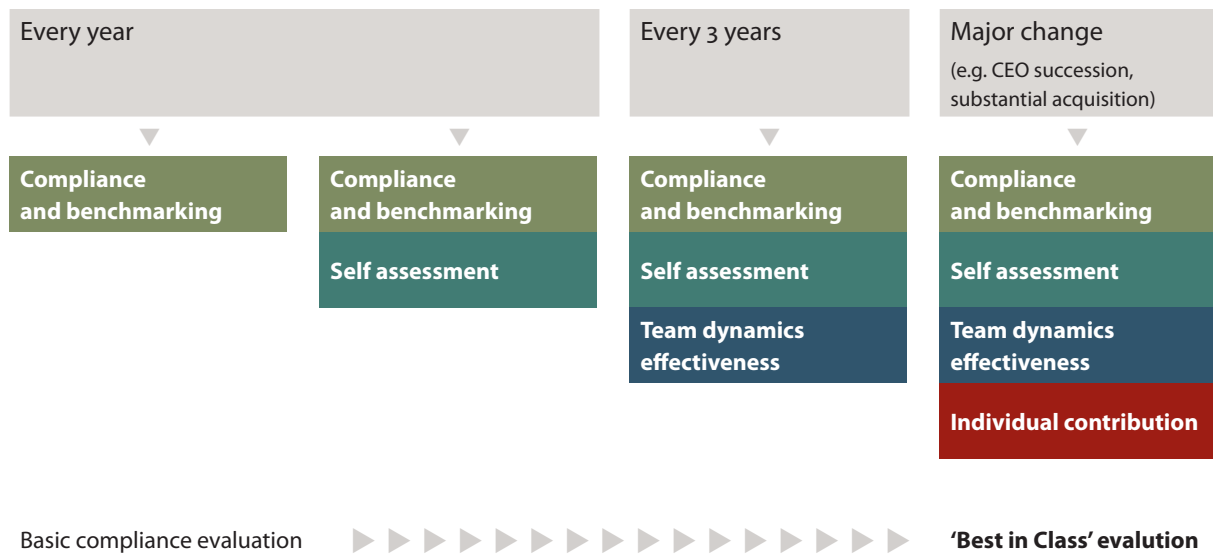
do not provide any information on how their evaluations were executed. Where we do have information, boards use questionnaires even more often than before (25% of evaluations in Europe, and over 40% in France, Germany and the UK) (fig 22). Individual interviews of directors occur in 25% of evaluations, either as the only process or combined with a questionnaire. With 48% of evaluations being interview-based, the UK is again ahead in this area.

“The quality of offerings will increase and the demand for a questionnaire and spreadsheet based evaluation will decrease. Once companies have been through a proper evaluation and have seen the benefits it brings they are much more willing to do it again.”

- Isolate future critical competencies for the company (spanning industry, functional and behavioural competencies).
- Review the decisions made in the last year and map out the time taken to implement those decisions, then ‘step back’ to assess to what extent the right decisions were tackled in the right order of priority.
- Use the board evaluation process to gauge board dynamics, culture and behaviours.
- Let the board members know in advance what the criteria for evaluation are. When new members join, clarify the criteria by which they will be evaluated just as for other members of the company.

figure 23

Evaluation processes



"I don't understand why boards are so happy to rely on external advice on some matters and not others. There are simply some things we are not all experts on – we must have the strength to hold our hands up and get external advisors in."

- Ensure that the results are shared with the chairman, on their own first, and then allow time for presentation of the results, both in one-to-one discussions and with the board as a whole.
- Organise a board workshop to agree how the board will implement the results of the evaluation.
- Communicate key highlights from the board evaluation in the annual report.

7 Board 'entry level' and CEO representation

Traditionally, most board directors have been drawn from the ranks of CEOs and CFOs, and these, of course, remain core talent pools.

However, the demands of these board roles are increasing and the skills required are becoming more complex and diverse. Add to this, the intensification of information flow and transparency of company affairs at all levels, and there becomes a need for a different skill profile. This may increasingly include consulting professionals, financiers, and high-level experts from the public sector. But, whatever their background, senior general management experience will continue to be required.

CEOs in particular have dominated boardrooms up to now and they will continue to be in demand, but we would suggest less so in cases of individuals with high egos, a driving need for control, or limited emotional intelligence.

CEO experience on the board

Despite the huge importance of industry specific knowledge, it is vital for the CEO to be challenged by board members who understand the CEO role. When a crisis occurs, or during periods of great change within the company, it is important to have members who have experiential knowledge and who have been through similar situations in the past.

CEO representation on the board is one indicator of the proportion of generalists, as opposed to specialists, in European boardrooms. 43% of European directors are current or former CEOs, but their representation varies across the region (fig 24). A CEO background is almost a pre-requisite for boards in France, the Netherlands

and Sweden (over 60% of board directors are CEOs). In Denmark, Finland, Switzerland and the UK, a majority of board directors are CEOs, whilst at the opposite end of the spectrum, Poland, Spain and Portugal have little CEO presence in the boardroom (less than one-quarter of board directors). In Poland and Denmark there are too many cases of remuneration and nomination committees without a director that has a CEO profile.

Functional diversity

Globalisation and a more complex CEO role have made it crucial for boards to have a core group of directors with specific industry or functional knowledge. It is not enough to have generalists on the board. A more complex CEO role has to be matched by a stronger sparring board as a counterweight.

"Some problems are simply so complex that very few people can really understand them. In this sense, boards need to be wise enough to know when to take advice from relevant external experts."

Audit committees are becoming more qualified than 2 years ago since 72% of them now include a CFO (current or former), or a chartered accountant (fig 25). Countries where a majority of audit committees lack financial expertise are Spain, Poland and Belgium.

Reflecting the increasing legal risks the board has to control, 72% of boards comprise at least one director with

"I would advocate leaning towards greater diversity in the board director talent pool."

some legal expertise. In 44% of companies, one member of the board has some business experience as legal director, while the others have a law degree. It does not come as a surprise that unitary boards are better armed in that respect. We believe there will be a greater demand for directors with legal expertise to deal with an increasingly more pressing and complex risk area.

Chairmen and directors of the future

While traditional profiles will remain relevant, we expect talent pools will be expanded. Therefore chairmen and directors of the future will include:

Younger: the pressure for diversity and more formal recruitment processes leads to the emergence of younger directors.

From alternative routes: against the trend that directors all come from the same circles, boards will open up to those from advisory, professional services and high-level public sector backgrounds.

Those with international experience and outlook: a 'team player' mentality and outstanding communication skills will be increasingly in demand.

Professionally recruited: boards will use defined competencies to create profiles, rather than simply a CEO / CFO standard background. In the past, non-executive directors were recruited on the basis of reputation and CEO experience. Future appointments will be made as much on market knowledge and fit with the strategy.

"There is a tendency to select candidates who have long experience and high seniority as opposed to candidates who have less experience, but who can add value through their objectivity and energy."

figure 24

CEO experience on the board

■ number of directors with a CEO background
 ■ number of directors with no CEO background

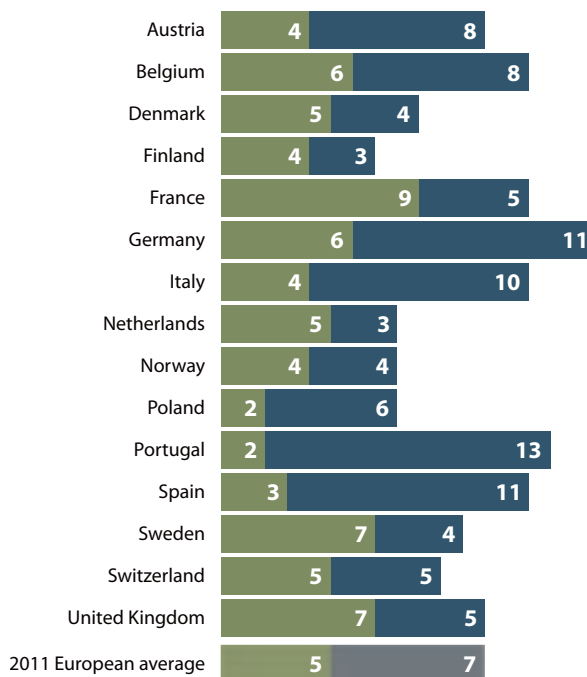
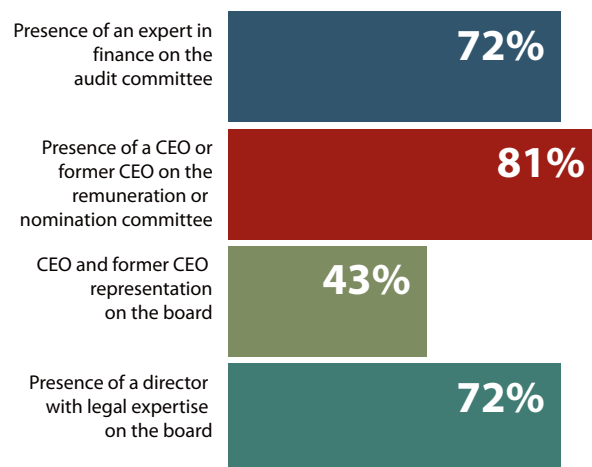


figure 25

Functional diversity on the board



8 The value of diversity and achieving the right mix

Diversity on boards is essential to their health and effectiveness. A species dependent on a limited gene pool is always weaker. But diversity should not be driven by forced quotas – it is achieved by combining the widest possible range of skills, experience and styles that create an ‘alloy’, where the sum of the ingredients is stronger than the whole.

The traditional pattern of boards which are made up of very senior people from similar backgrounds and shared experience is changing but this trend must be accelerated to avoid the danger of ‘group think’. So, the composition of the board should reflect the values and strategy of the company, as well as its technical and geographic ambitions.

However, the obvious and serious diversity gaps that still exist on many boards (gender and nationality especially), need urgent attention rather than just good intentions (fig 26).

A diverse board also needs to be able to share its convictions and ideas within a common ‘language’. And therefore, in bringing diverse elements together on the board, nomination committees must keep a careful eye on chemistry, cultural influences and shared values. A variety of personal styles is always healthy but clashes of chemistry or personality are invariably destructive.

Board size: ensuring the diversity of contributions within a manageable group

When recruiting, it is important to look at the skill base of the team and see how best to complement it. The size of the board should allow the representation of functions and sectors that are important with regards to the company strategy. We record an average of 12.1 directors on European boards (fig 27). Boards are becoming bigger to accommodate the requirement for diversity, to populate the increasing number of committees and to increase the competency set. However, a board of more than 15 directors is usually difficult to manage.

Good practice in ‘Best in Class’ boards

- Recognise that as diversity on the board increases, the time and resources required to learn how to work together effectively also increases.
- Diversity should not be forced at the expense of competence.

figure 26

Profile of the boardroom in Europe

(a summary of the average European board)

Average age: **58.4 years**

Average age of new directors: **54.9 years**

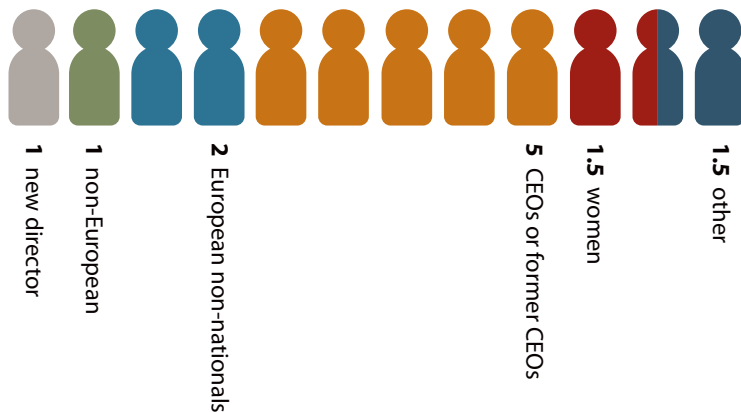
1 meeting (board or committee) every **2 weeks**

Attendance: **92%**

Average length of tenure: **3.1 years**

Average time on board: **5.7 years**

12 Directors

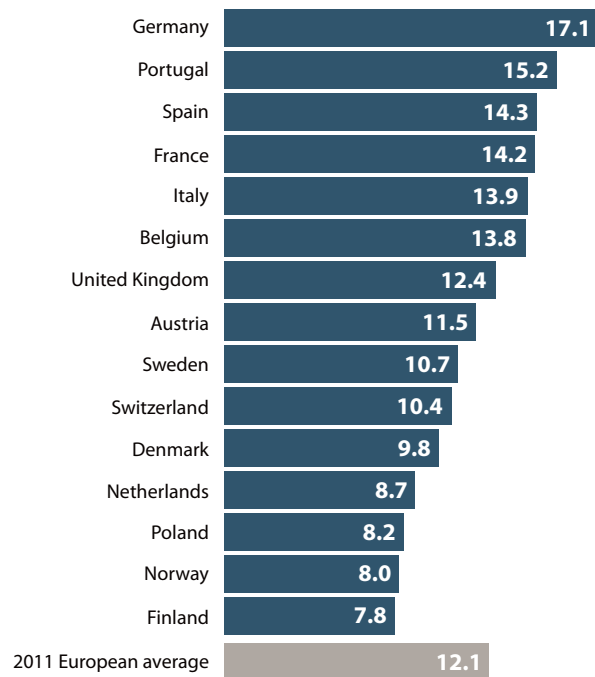


“We must appreciate – and this is where we often go wrong – the real, profound value of other cultures, beliefs and perspectives. I don’t think this is negativity or even naivety, I think it is more that too many non-executive directors have not been exposed to the true power of diversity.”

- As with succession planning, achieving the right mix of diversity is not an ‘event’. Board diversity should be continually assessed and addressed.
- Diversity increasingly demands a change in long-standing traditions: for example a company needs to be able to accept that its board contains some directors with no previous public company board experience.

figure 27

Number of directors per board



Internationalisation

Our approach to the question of internationalisation comes under the wider umbrella of diversity and is linked to globalisation. Geographical diversity may be important if a company is looking to grow internationally. However, internationalisation is not easily achieved and it can be equally viable to have directors with international exposure rather than a non-national director in many cases. It avoids the language issue and logistical problems of board and committee attendance. The biggest difference between having a non-national director versus a national director with international exposure will be in terms of understanding the culture, building a network and penetrating the market.

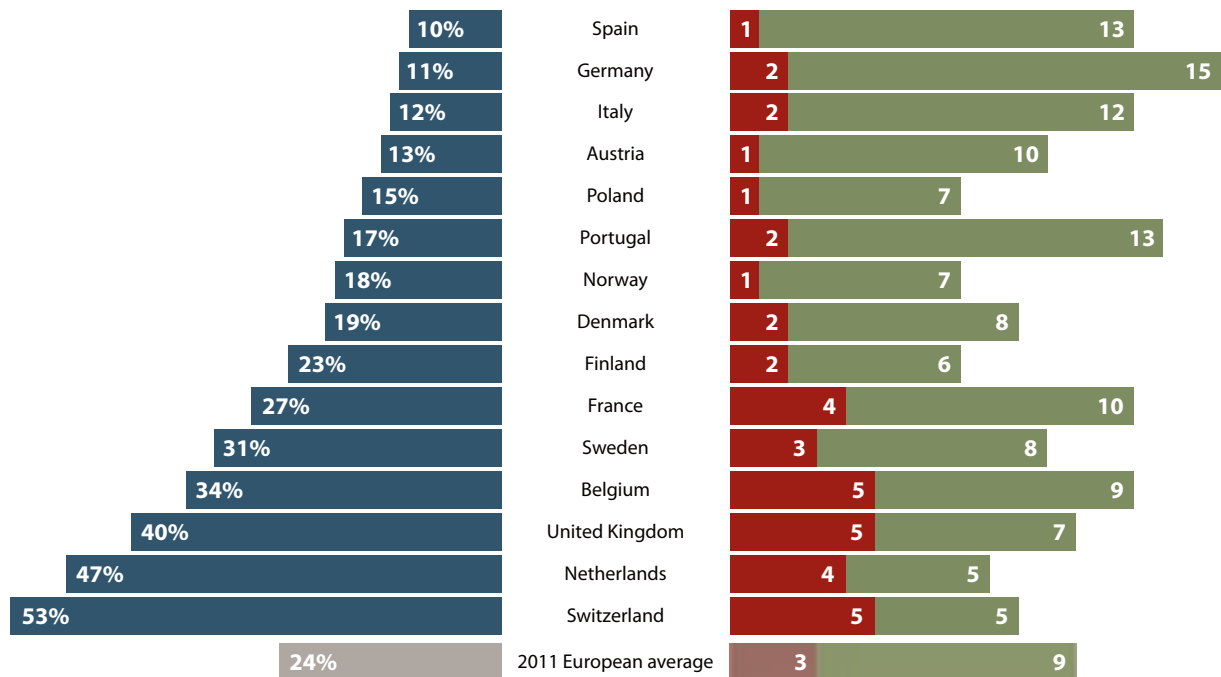
“Boards need to look internationally to broaden their horizons.”

“Increasing diversity by simply adding people of different nationalities can miss the point.”

figure 28

Non-national directors on the board

■ % of non-national directors ■ number of non-nationals ■ number of nationals



Language is still the major barrier to board internationalisation in the majority of countries, namely Spain, Germany, Denmark, Poland, Sweden and Finland. In Germany, Austria and Denmark, where union representatives do not necessarily speak English (and companies cannot impose fluency in English for employees' election), the biggest prerequisite for non-executive candidates is the total fluency in German or Danish, before any other requirement of expertise. In terms of logistics, not all companies prepare documents on company information to the board in English. Also, in terms of team dynamics, switching to English often creates sub-groups within the board based on language.

Other constraints of internationalisation are:

Logistics: boards need to plan board and committee meetings at least one year in advance so that non-national board members can participate fully.

Remuneration: as boards are not usually in a position to pay international directors more than the national ones for the same role, they need to find ways around this to make the work worthwhile for the international directors.

Team dynamics: the chairman should give more time and space to those directors who speak less well, and dedicate special attention to team spirit and consensus building.

figure 29

Proportion of companies with no foreign directors

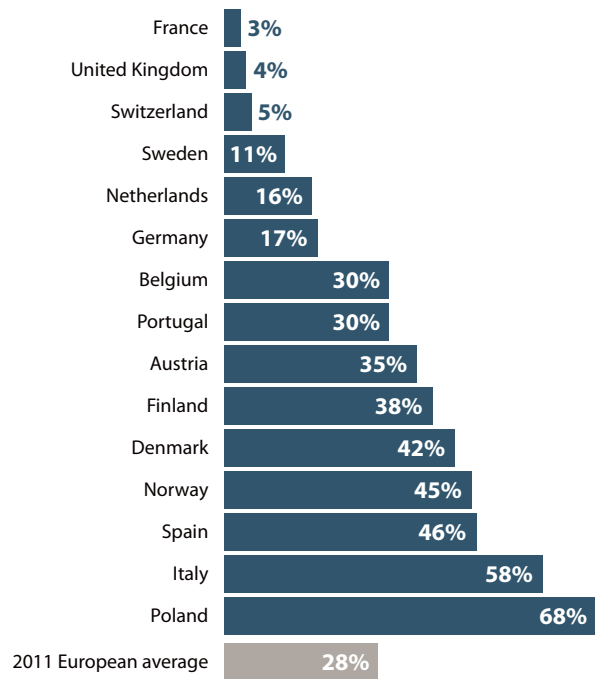
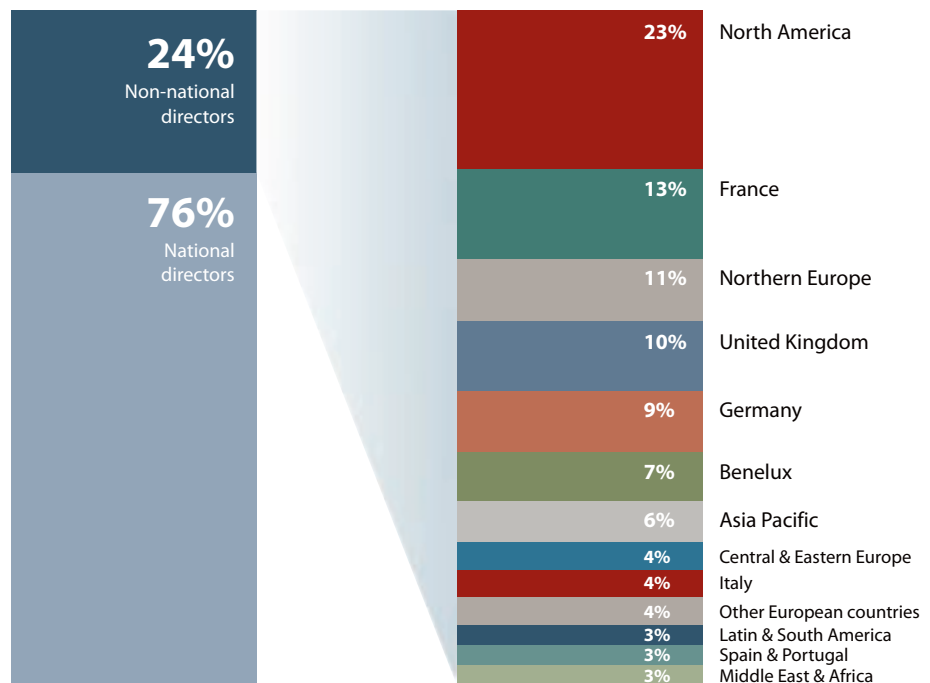


figure 30

Country and region of origin of non-national directors



Nearly one in four directors of European boards is a non-national, reflecting the demand for international competencies (fig 28). However, internationalisation is not a standard European pattern: a stable 28% of boards include no foreign directors at present despite the international footprint of these companies (fig 29). While there is a discussion about how far boards should go in terms of internationalisation, there is consensus that having a 100% national board is not right today. Internationalisation will probably be a priority for boards in Poland, Italy, Spain, Norway and Denmark, where over 40% of boards comprise of nationals only.

Boards in Austria, Denmark, Finland, Germany, Italy, Norway, Poland and Spain comprise one or two foreigners. In Belgium, France, the Netherlands, Switzerland and the UK, boards comprise 4 to 5 non-nationals. Two-thirds of non-national directors are still European, with a slight increase in the number of Americans (fig 30).

Gender diversity

In some countries gender diversity has been imposed by quotas. In France, boards will have to comprise 40% of women directors by 2017. This will necessitate a huge diversification of the pools from which directors are drawn.

We view gender diversity in the wider context of diversity, which is about having a stronger mix of skills, points of view and experience as driven by the company strategy and leadership style. We find that boards pushing for this are often 'employers of choice'. It is a statement to their external and internal audiences that company leadership is passionately committed to a diverse agenda so that it can attract the kind of people who want to be part of such an organisation.

With a 22% increase from a low 9.9% two years ago, the ratio of female to male directors reaches 12.1% (fig 31). One in four boards does not comprise of any women (down from 33% in 2009 and 46% in 2005) (fig 32). The four Nordic countries are still leading the way, with Italy and Portugal having significant room for improvement.

In Austria, Denmark and Germany, the majority of women directors are employee representatives (fig 33). In Belgium, France, Italy and Spain, between 24% and 52% of women directors are shareholder elected.

figure 31

Proportion of women on the board

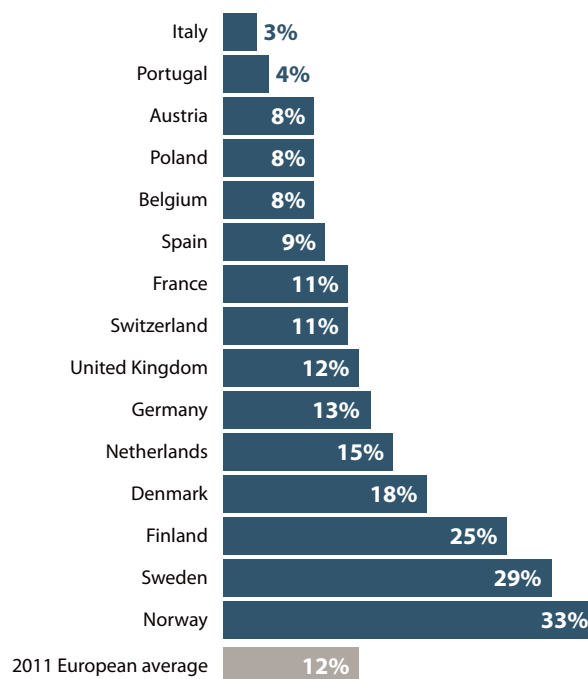
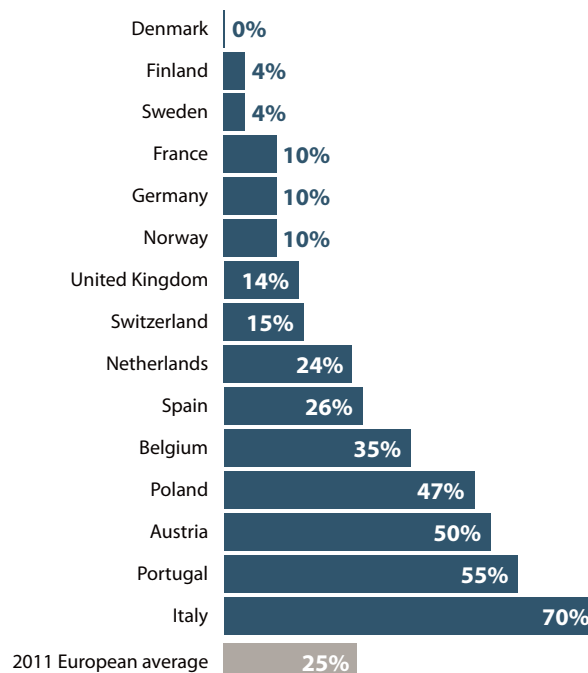


figure 32

Proportion of companies with no women on the board



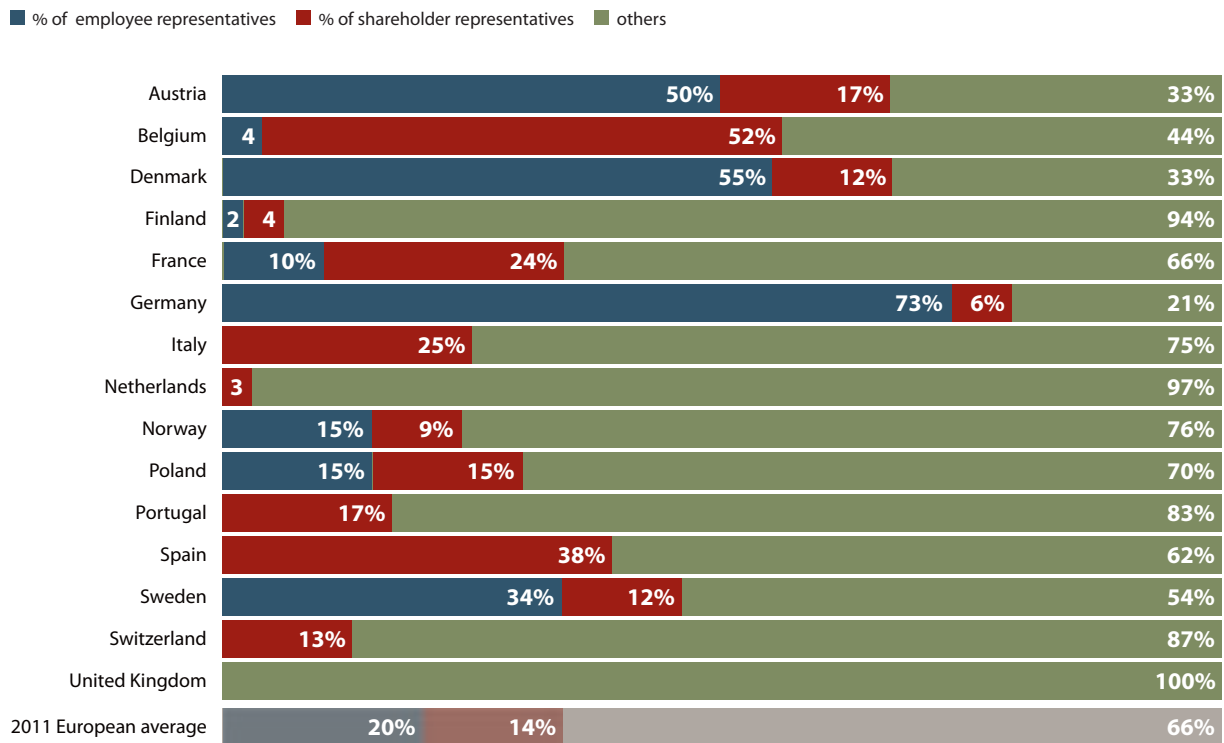
There is a question about whether women bring another perspective to the team. Currently many women on the board have the same kind of background as male directors (one-third of female directors are CEOs or managing directors of a business unit). This prompts the question as to what extent they really bring diversity – as it is clearly not simply in terms of their experience. Further, most of these women would find it insulting to be approached for a board seat on the sole or primary basis of gender.

“Most women on boards have come up through the same route as the men, so in that sense they aren’t so different from their male counterparts.”

“I place far greater value on professionalism than on diversity. But it’s clear that a board full of people who have the same prejudices and believe they know their industry, is pretty dangerous and diversity is a good weapon against that.”

figure 33

Status of female board director representatives



9 The importance of independence vs. the need for greater engagement

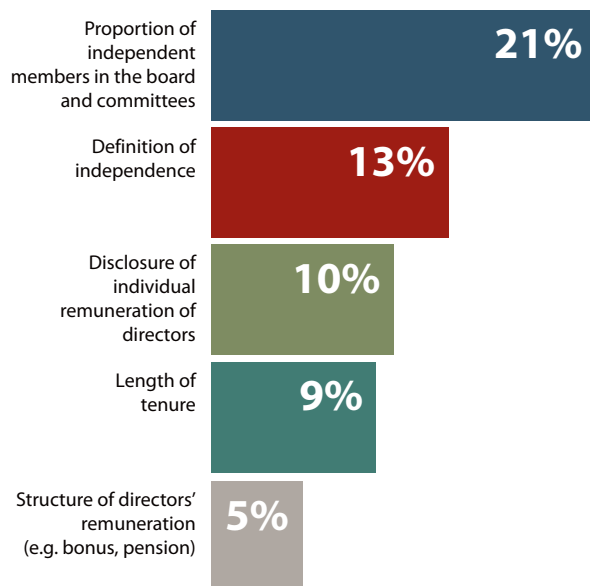
The question of independence evoked a large number of animated and even heated reactions from many of our contributors. It is perhaps more accurately expressed by differentiating between independence and objectivity. Independence is defined by the absence of obvious tangible connections, likely to create bias, such as ownership of shares, involvement with clients / suppliers and family ties. Objectivity is defined, to some extent, by duration of association and, of course, by 'emotional' investment. It is certainly the case that objectivity lessens over time and that is why it is right that after a defined period, directors no longer qualify as independent.

Regardless of the degree of independence / objectivity, directors have a deep obligation to commit greater engagement and this is manifested in many different ways. Equipping themselves with the necessary knowledge of the company's market / competitive environment, to gaining a closer understanding of its operations, and strengthening their appreciation of the senior talent, are all essential. Many will question this on the grounds that there are risks of becoming conflicted

figure 34

Highest levels of non-compliance with corporate governance code provisions

(% of companies not complying with this provision)



"True independence is actually a very lonely, awkward place to be. If you were truly independent you wouldn't last long on a board – colleagues would be put off by constant, poorly informed challenges. Most independent directors are not independent."

or overlapping with the responsibilities of the executives. But we believe that finding this balance and managing it skilfully exemplifies the highest order of directorship.

Compliance

The criterion of ‘independence’ is the main barrier to full compliance with corporate governance codes by European companies. We analysed the ‘comply or explain’ statements of 400+ companies and found that one in two companies stated that it does not fully comply with its national corporate governance code. The two most unobserved provisions are the proportion of independent directors on the board and the committees (21% of companies do not comply with the set proportion) and the list of criteria for independence (13% of companies

use another definition than the one in their national code) (fig 34). Often companies state that formal independence criteria conflict with more pressing recruitment criteria such as industry knowledge.

“Independence is a mindset. It is best reflected in the UK corporate governance code which states that non-executives should have ‘the ability to challenge.’”

Board composition

At 43% on average, independent non-executive directors remain the largest group in Europe and in most countries with the following exceptions: in Belgium and Spain, reference shareholders are predominant; in Germany, employee representatives hold half of the seats in companies with an AG structure; in Portugal, executives are the largest group (fig 35).

“The independence versus non-independence debate is a sheer waste of time and largely wrong-headed. What really matters is whether directors are up to the job or not.”

figure 35

European board composition (by category of director)

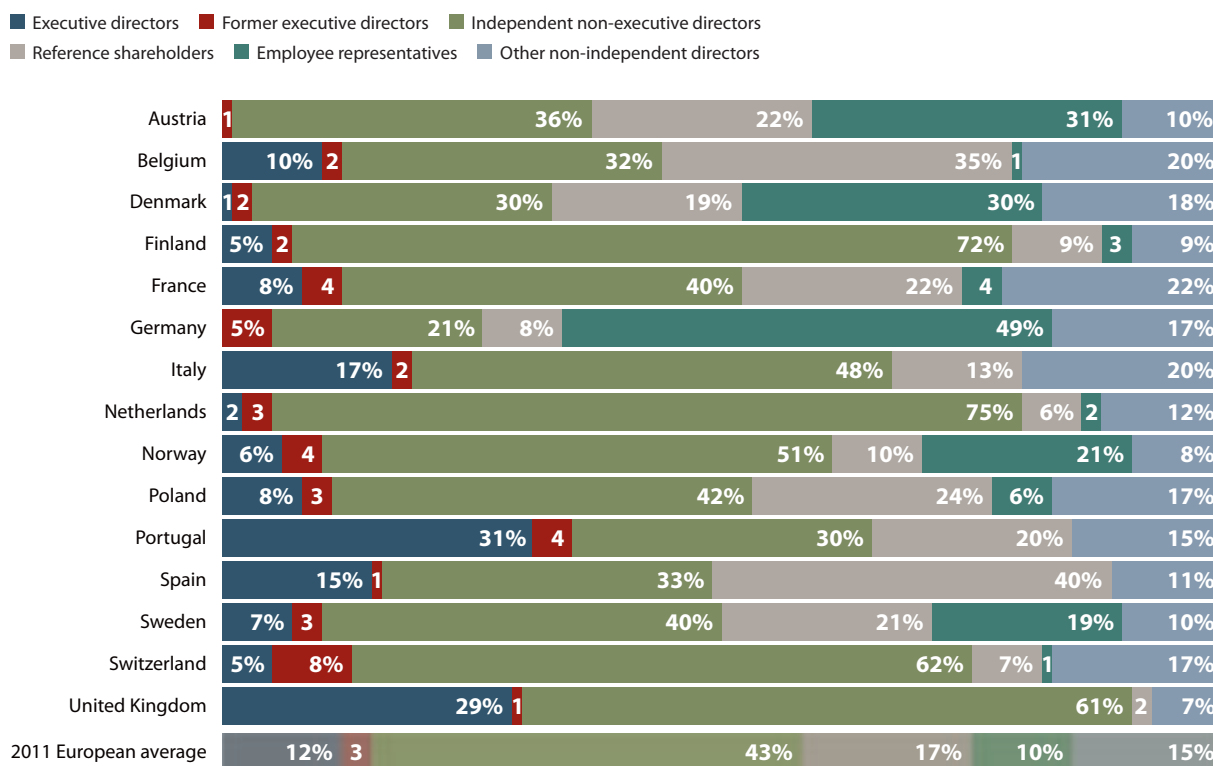
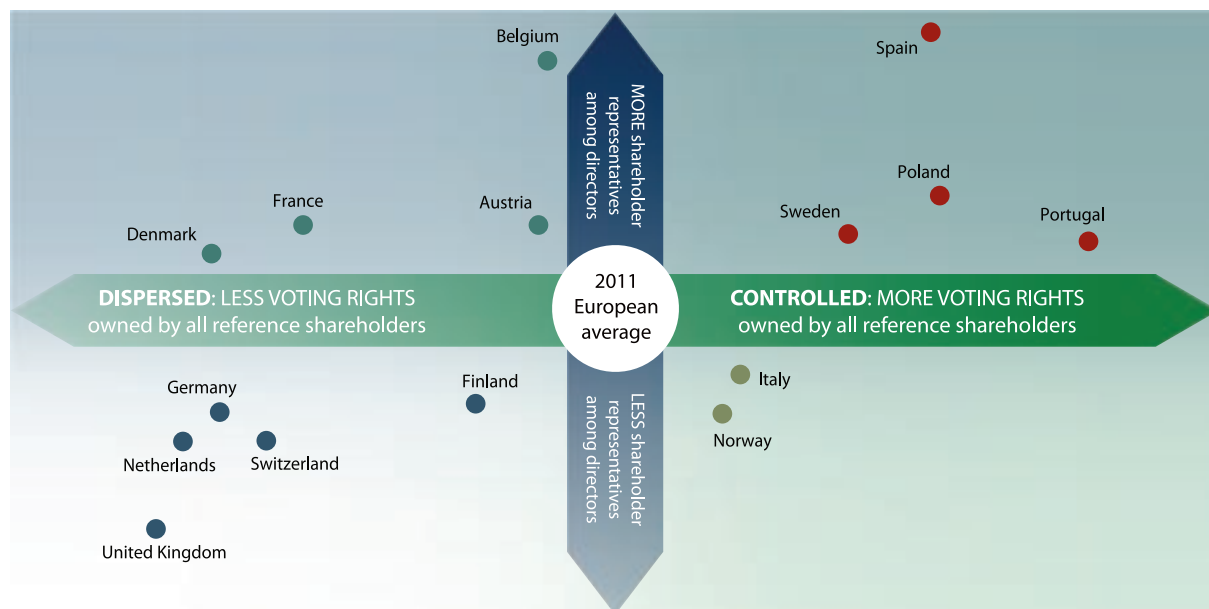


figure 36

Reference shareholder power

- Countries where companies and boards are controlled by reference shareholders
- Countries where companies are controlled by reference shareholders, but boards uncontrolled
- Countries with a dispersed ownership structure but boards controlled by reference shareholders
- Countries with a dispersed ownership structure and boards uncontrolled by reference shareholders



Boards are still populated by a significant proportion of directors whose status is not clear: neither executive, nor employees, nor significant shareholders. Many of these directors no longer qualify as independent because they have been on the board for too long (9 years under the most stringent definitions, 12 years under other corporate governance codes).

Reference shareholders are the second largest group. In Spain, Portugal, Poland and Sweden, the large proportion of shareholder representatives is correlated with a controlled ownership structure (fig 36). In Belgium, France, Austria and Denmark, the high proportion of shareholder representatives is disconnected from the equity structure.

“On the continent, over 50% of companies have ‘block’ shareholders. The problem then is: who protects the interests of the minority shareholders on the board?”

“There is no trade-off between independence and engagement; no dichotomy. You can be independent and be engaged.”

figure 37

Independence of committee members (of the audit, remuneration and nomination committees)

	% of independent chairmen on the three committees	% of independent directors on audit committees	% of independent directors on remuneration committees	% of independent directors on nomination committees
Austria	57%	36%	38%	39%
Belgium	44%	47%	48%	45%
Denmark	48%	46%	44%	50%
Finland	60%	82%	75%	65%
France	55%	47%	46%	41%
Germany	48%	22%	18%	29%
Italy	64%	86%	79%	69%
Netherlands	78%	79%	79%	74%
Norway	42%	52%	49%	56%
Poland	55%	59%	46%	47%
Portugal	84%	67%	20%	53%
Spain	73%	48%	44%	44%
Sweden	29%	56%	45%	67%
Switzerland	60%	79%	59%	56%
United Kingdom	85%	93%	92%	84%
2011 European average	61%	62%	56%	56%

10 Remuneration

Independent directors rarely, if ever, undertake this work for the money. Indeed, should the financial rewards become too attractive, then the independence of the director risks being compromised. Ultimately an independent director needs to be free to resign on a point of principle or fundamental disagreement on strategy.

But, there is a need for some revision of director remuneration, based on the increasing time commitment. This is especially true in the case of chairmen, where there is also a built-in commitment to assume ‘command’ of the business in critical situations, such as a sudden loss of the CEO or a possible change of control.

There is a wide divergence of views as to how chairmen remuneration could be enhanced. The balance of opinion is that base pay will increase to reflect the time commitment, and that any equity component should be constructed in such a way that it rewards long term contribution towards or at the end of tenure, rather than during it. It is generally agreed that vesting share options are unwise, given their association with short term performance.

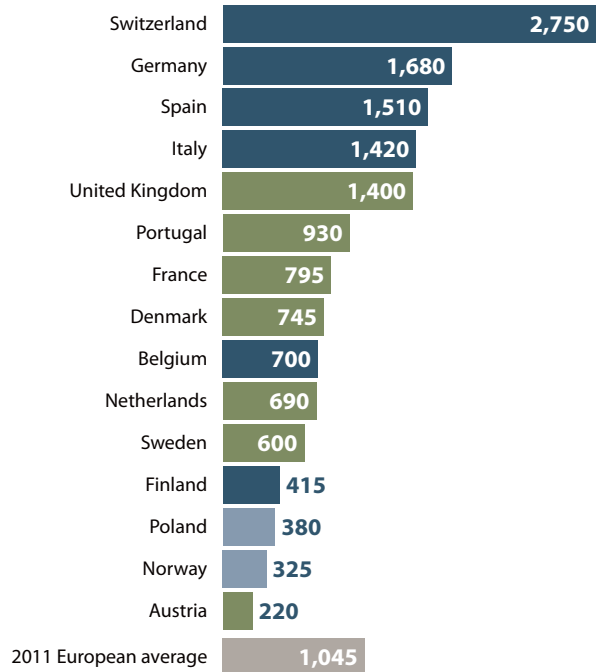
Having said all of this, as one contributor put it:

“anyone who thinks that those who have already proved themselves at the highest levels and gained financial independence, will work harder or be more committed because of the financial reward, needs to have their head examined!”

figure 38

Average total NED remuneration per board
(in €1000)

- lower remuneration than in 2009
- stable or higher remuneration than in 2009
- no previous data



Total board remuneration

The recent financial crisis has had a negative impact on the remuneration levels in the 4 countries with the highest budgets, while total spend increased at the other end of the scale. Despite a drastic 23% cut in board spending in two years in Switzerland, there is still a significant disparity among European companies. We record a one-to-12 ratio between the lowest (Austria) and the highest (Switzerland) average spending on non-executive fees (fig 38). Board spending in Switzerland is twice that of UK companies.

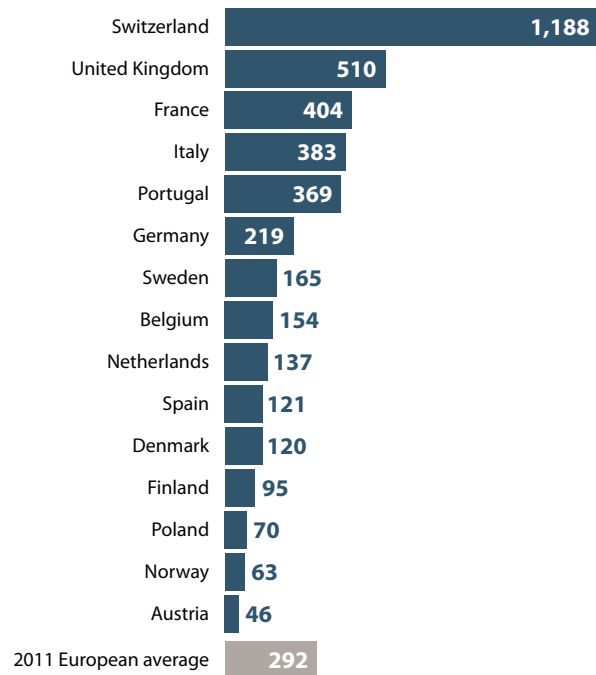
Remuneration of non-executive chairmen

Figure 39 shows the cash remuneration of non-executive chairmen. The 1 to 25 ratio between the cash remuneration of Austrian and Swiss chairmen does not only reflect a difference in roles. It highlights the need for more thought about the immense importance of chairmanship - the role of the chairman has dramatically increased in terms of time and engagement. A chairman role will nominally take about three days a week. Remuneration should reflect chairmen impact, time commitment and personal reputational risk. As companies recognise the impact of chairmanship, we expect remuneration to rise and become more consistent across Europe.

High chairman remuneration levels match high overall budget and high director fees – except in France, where the relatively high level of non-executive chairman remuneration contrasts with a low total remuneration budget and low director fees. We also note that high non-executive chairman remuneration is most common in situations when a CEO takes on the chairman role upon retirement.

figure 39

Average cash remuneration of non-executive chairmen (in €1000)



"I do believe we will see a change towards higher chairmen remuneration, as required by the increasing work load and responsibility / accountability."

Good practice in 'Best in Class' boards

- Utilise external experts to assist with the assessment of both executive and non-executive director's remuneration.

figure 40

Average director remuneration

(in €1000)

- lower remuneration than in 2009
- stable or higher remuneration than in 2009
- no previous data

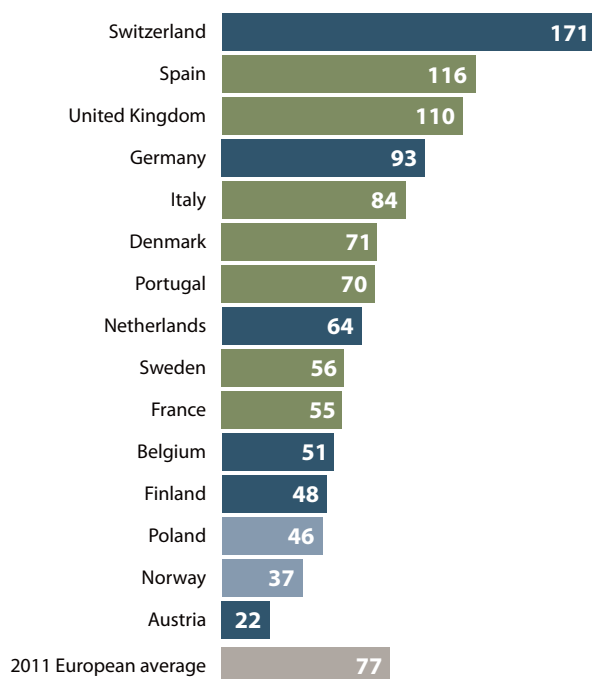
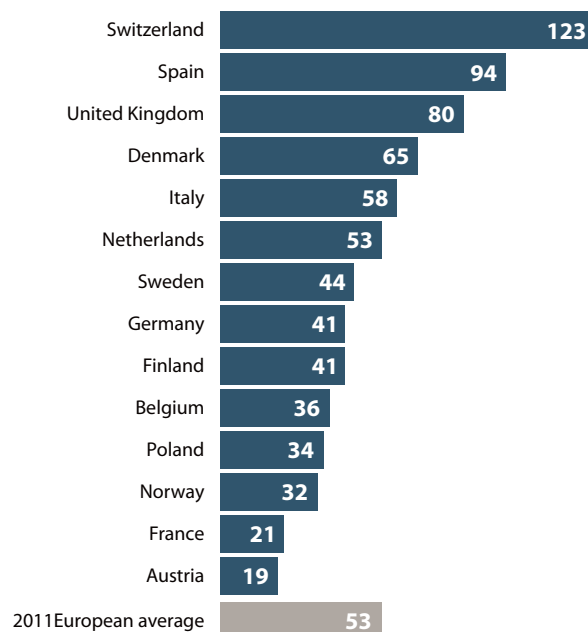


figure 41

Average basic fee of directors

(in €1000, data sample for Portugal is not representative therefore not published)



Directors' remuneration

For the first time in the 12 year history of this report, the average remuneration of directors dropped to 77,000 Euros (a 4% drop from 2009 on a constant country sample) (fig 40). However, there is still a 1 to 8 ratio between average fees in Austria (€22,000) and Switzerland (€171,000). This will need to be addressed if companies want to more frequently attract top international talent.

- Benchmark non-executive director remuneration against comparable company boards as part of an annual remuneration review or board effectiveness review.
- Clearly define, agree and publish the principles and measures by which non-executive directors are remunerated.

Remuneration structure

Fixed basic fees constitute the single largest element (68%) of directors' remuneration and constitute 92% of the fees in Denmark, about 80% in Northern Europe and 73% in the UK (fig 41). Basic fees represent a small proportion of the remuneration in two countries – Germany (at 44%) and France (38%). In these countries, the structure of the remuneration favours variable and committee fees for chairmen and members. Additional committee fees offer a flexible solution to compensate some directors more than the others.

Directors' remuneration is 84% fixed in European companies. Variable components of the remuneration amount to less than 10% of the total in Denmark, Italy, the Netherlands, Norway, Poland, Portugal and Sweden, and only about 25% in Germany, Austria, Belgium and Spain. France is a notable case in this area – whilst meeting fees represent 48% of total fees, the country has the lowest attendance ratio.

Non-cash remuneration remains unusual in Europe: 10% of companies allocate shares to the non-executive directors, mainly in Switzerland and Finland and only 3% of companies allocate options.

Remuneration of committee chairmen and members

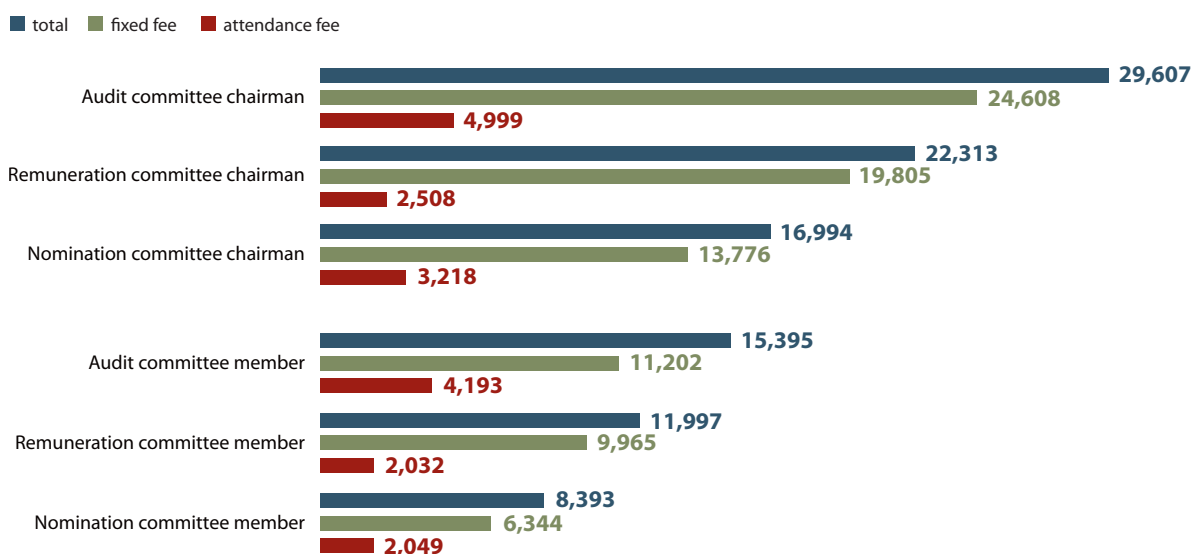
While overall directors' fees dropped in two years, committee fees increased over the same time span (fig 42). This growth is more significant in the case of the remuneration and nomination committees, mainly to reflect more frequent meetings and higher expectations placed upon them.

“The number of boards on which people can serve should be restricted but they should be paid more per role.”

figure 42

Average remuneration of committee chairmen and members

(Shown in Euros €)



11 Optimum board culture

It is, above all, the chairman who sets the tone and orchestrates the interactions and workings of the board's individual members.

Where the culture in the boardroom has become toxic the only solution is to replace the chairman. And even where this is achieved, rebuilding a positive and productive culture under a talented chairman will take time and probably several personnel changes.

Building trust is the key challenge within the modern board. In the past, it used to be based on personal trust as directors often knew each other and relied on their common value sets. With the move to selecting directors outside the 'old boys' network, boards need to create an atmosphere of professional trust. In this context, boards need to clarify rules, processes and roles, especially for the less experienced directors.

The board is a unique living entity and as such, there is no right or wrong culture. There is also no absolute definition of optimum culture, as this is specific and dependent on the nature of the market and the operating model of the company. In our opinion though, there are some universal constants that a successful chairman will always observe:

- Excellent administration and meeting management skills.
- Encouragement of equal and balanced contributions from board members.
- Containment of dominating personalities and ability to elicit participation from withdrawn board members.
- Issue prioritisation and summarising skills.
- A common vision for the board and the company.
- Achievement of decisions supported by consensus (not majority).
- A blend of formal and informal interactions.
- Strategic / future / development focus.
- Crystal clear agenda and allocation of follow-up responsibilities.
- Alignment between culture in the board and culture in the company.

"In many of the big governance failures in recent times the chairman has shown that where he / she has really failed has been in understanding what the dynamic on the board is or should be."

Individual behaviours

These group characteristics are driven by the individuals that constitute the board and we observe a clear link between boards that exhibit world-class dynamics and board members with the following characteristics and values:

Open-minded listening: able to listen to other opinions around the boardroom, interpret them objectively and respond independently of pre-formed perspectives.

Hardworking and supportive: committed to the company and the board and seeks to move the whole group forward together by supporting other directors.

Curious: with a genuine interest in the company and its affairs.

Collaborative: able to function as part of a high calibre team.

Honest and forthright: presents genuine opinion in a direct, accessible and concise manner.

Accountable: exhibits a strong sense of ownership for any position taken and accepts the responsibility (individually, and as part of the group) for any consequences.

Humility / Self-awareness.

Probing: challenges directors when merited and always in a value-orientated fashion.

Team dynamics

“There is a big assumption that outsiders and diversity benefit boards. Simple diversity isn’t enough to make the board work – team dynamics is the real issue at the heart of board effectiveness.”

Board team dynamics are very different from that of the executive committee because of the very nature of the board’s structure. As ‘primus inter pares’, the chairman is not the ‘boss’ of the directors (as opposed to the CEO with the executive committee), and so their influence is horizontal, not vertical. This is the context of chairman leadership style.

Further, because the functioning of the board is more complex, there is a strong bias towards consensus governance, something that works differently within the executive committee. Many board directors are current or former CEOs, who are used to the functioning of executive committees where they take decisions, so they will often have to unlearn what made them successful as executives, when first becoming non-executive.

12 Rethinking the role of the chairman

Chairmanship is a distinctly different 'brand' of leadership. As investor demands and media scrutiny increase, chairmen will be expected to know more about their companies and the markets in which they operate, be more engaged in setting the strategic direction, and provide more support to the CEO and executive team. Three defining characteristics of this change are emerging:

Providing strategic counsel

Good chairmen will be increasingly involved in strategy discussions, far earlier and with far greater emphasis on future planning and risk management.

A dynamic partnership

Intense, trust-based working relationships with the CEO will be the norm, with roles and responsibilities set out in a dynamic 'contract' and regularly revisited.

Ensuring a strong talent bench

Chairmen will be well connected to the top 30-50 executives, and know what development and succession plans are in place for each individual and role.

The biggest risk in the boardroom is a supine or dysfunctional culture that prevents effective scrutiny and debate. In order to circumnavigate this risk, tomorrow's chairmen will need to be exceptional facilitators and communicators in and outside the boardroom.

Beyond 'governance by process'

Chairmen of the future will need outstanding interpersonal skills to build inclusive, effective boards that both challenge and support their executive teams.

Visible to shareholders and media

Chairmen will initiate and lead dialogue with investors on corporate issues and strategies, and be willing to support the CEO in media communications.

Eight key characteristics of world-class chairmen

In order to meet the challenges of chairmanship in the 21st century we see eight characteristics as fundamental:

Proactive

Capable of 'igniting' improved performance, even in good times.

Organised

Visible

Available to all stakeholders and at the forefront in critical situations.

"A good chairman should carry weight, have credibility and have the respect of the rest of the board. He / she must encourage the rest of the board to flourish and should have an absence of ego."

Team manager

Able to get the best out of the board in all situations.

Decision facilitator

Drives the board to decisions that are preferably consensus based, but not necessarily.

A consummate listener

Able to implicitly demonstrate that directors have influenced discussions when summing up and bringing the board to decisions, and, where necessary, able to consolidate the underlying meaning of contributions from what is actually said.

Energetic / engaged

High Emotional Quotient (EQ)

Profile of European chairmen

One-third of European chairmen are independent. In the UK and the Netherlands the percentage is highest at 73% and 72% respectively (fig 43).

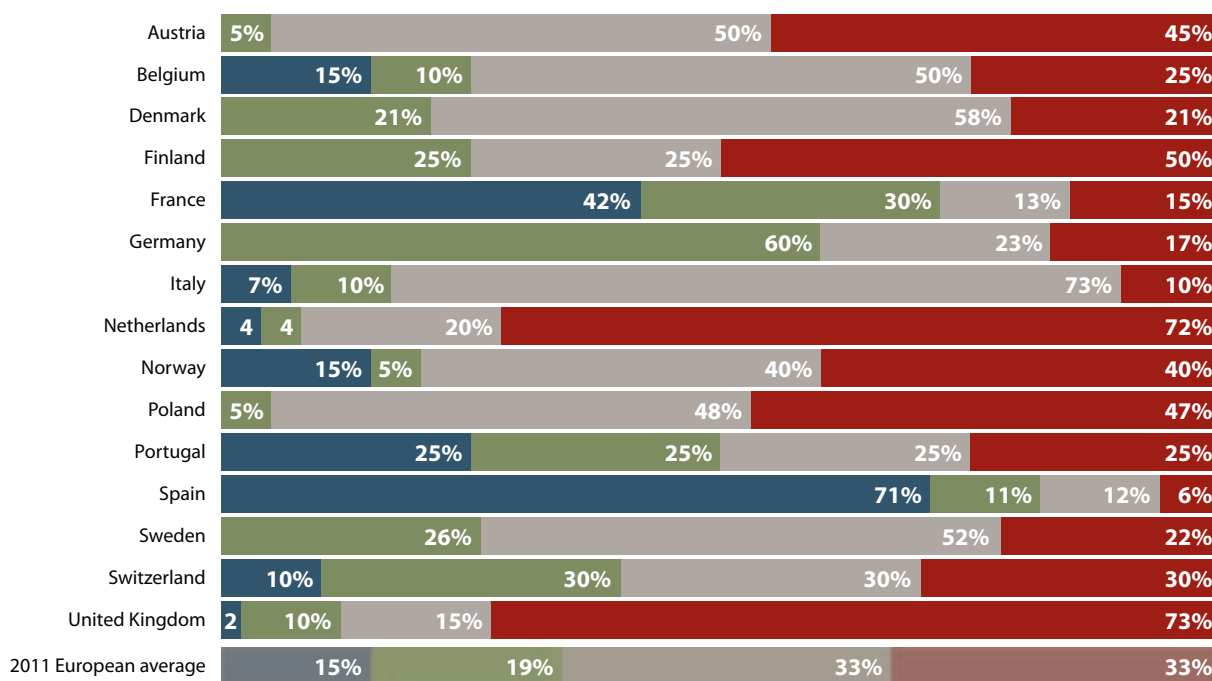
With 85% of split chairman and CEO roles, executive chairmen remain prevalent in Spain (71%) and France (42%). A combined chairman and CEO function inhibits the development of specific leadership by a chairman and raises the question of how the board balances the power of the CEO.

A further factor affecting the occurrence of independent chairmanship is the unchanged proportion (19%) of chairmen who moved into this role upon retirement as CEO of the same company. Former CEOs are a common though not recommended practice in Germany, France and Switzerland. As the German corporate governance code has recently changed and now forbids this practice, we expect proper nomination processes for the chairman role in the future.

figure 43

Chairman profiles in Europe

- Executive chairman / chairman and CEO
- Non-executive chairman is the former CEO
- Non-executive non-independent chairman
- Independent non-executive chairman



13 Training and development of directors

Training for directors and chairmen should not be thought of simply as a limited programme of narrow, class-based academic learning that instructs senior business leaders in boardroom processes. Indeed there is little place for this in today's boardroom with some chairmen taking the view that 'if my director needs educating, then I have the wrong director'.

Rather, the question before boards is 'how do we become more effective directors?' Part of the answer lies in vocational experience – spending time with great directors helps others in turn become great (*fig 44*). However, creative use of away-days, external experts and innovative training methods in certain areas, e.g. board dynamics and 'soft-skills', can prove extremely valuable.

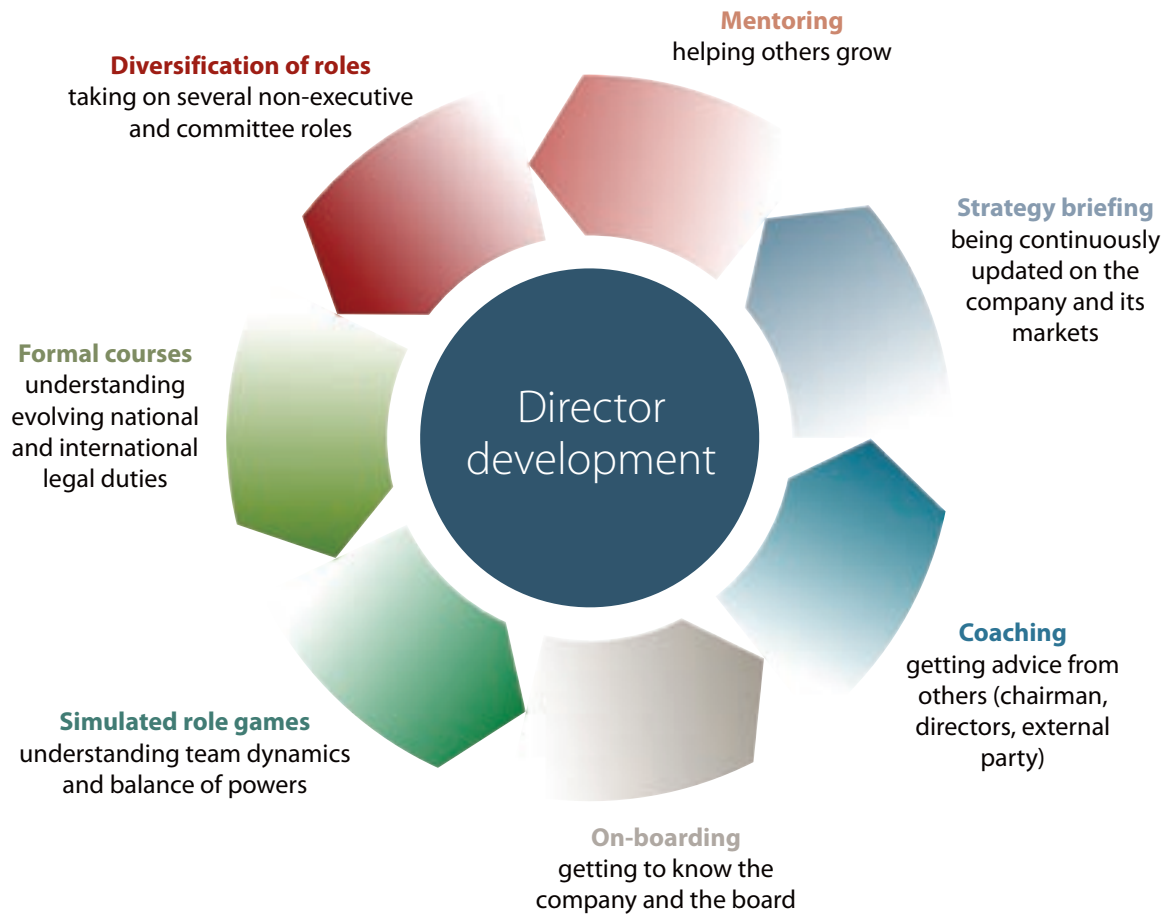
"Governance is an art. Creative, inventive training can play a part in helping directors to get better at it."

Good practice in 'Best in Class' boards

- Be creative in the use of third parties to provide training in non-traditional areas e.g. 'soft-skills', team dynamics and group behaviours.
- Build in quality time for training and experiential learning to the yearly board schedule.
- Ensure personal development plans are created as part of a deep board review at least every 3 years and that training opportunities identified in these plans are progressed and systematically reviewed with the chairman, yearly.

figure 44

The director training cycle



Company index

The country/countries in which each company was analysed are listed after each entry.

A.P. Møller-Maersk (Denmark)	Banco Popolare (Italy)	Cimpor (Portugal)	Essilor (France)
A2A (Italy)	Banco Popular (Spain)	CNP (Belgium)	EVN (Austria)
ABB (Sweden-Switzerland)	Banco Sabadell (Spain)	Cofinimmo (Belgium)	EXOR (Italy)
Abengoa (Spain)	Banco Santander (Spain)	Colruyt (Belgium)	Experian (UK)
Abertis (Spain)	Banesto (Spain)	Commerzbank (Germany)	Fastweb (Italy)
Acciona (Spain)	Bank Pekao (Poland)	Compass (UK)	FCC (Spain)
Accor (France)	Bank Zachodni (Poland)	Corio (Netherlands)	Ferrovial (Spain)
Aceryg (Norway)	Bankinter (Spain)	Crédit Agricole (France)	Fiat (Italy)
Acerinox (Spain)	Barclays (UK)	Credit Suisse (Switzerland)	Finmeccanica (Italy)
Ackermans & van Haaren (Belgium)	BASF (Germany)	Criteria Caixacorp (Spain)	FLSmidth (Denmark)
ACS (Spain)	Bayer (Germany)	Cyfrowy Polsat (Poland)	Flughafen Wien (Austria)
Actelion (Switzerland)	BBVA (Spain)	Daimler (Germany)	Fondiaris Sai (Italy)
Adecco (Switzerland)	BCP (Portugal)	Dampskibsselskabet NORDEN (Denmark)	Fortis (Belgium)
Adidas (Germany)	Befimmo (Belgium)	Danisco (Denmark)	Fortum (Finland)
AEGON (Netherlands)	Beiersdorf (Germany)	Danone (France)	France Telecom (France)
Ahold (Netherlands)	Bekaert (Belgium)	Danske Bank (Denmark)	Fred. Olsen Energy (Norway)
Air France KLM (Netherlands)	Belgacom (Belgium)	Davide Campari-Milano (Italy)	Fresenius (Germany)
Air Liquide (France)	BES (Portugal)	Delhaize (Belgium)	Fresenius Medical Care (Germany)
Aker Solutions (Norway)	BG Group (UK)	Deutsche Bank (Germany)	Fresnillo (UK)
Akzo Nobel (Netherlands)	BHP Billiton (UK)	Deutsche Börse (Germany)	Frontline (Norway)
Alcatel Lucent (France)	Bioton (Poland)	Deutsche Lufthansa (Germany)	Fugro (Netherlands)
Alfa Laval (Sweden)	BME (Spain)	Deutsche Post (Germany)	GALP (Portugal)
Allianz (Germany)	BMW (Germany)	Deutsche Telekom (Germany)	Gamesa (Spain)
Alstom (France)	BNP Paribas (France)	Dexia (Belgium-France)	Gas Natural (Spain)
Altri (Portugal)	Boliden (Sweden)	Diageo (UK)	GBL (Belgium)
Andritz (Austria)	Bouygues (France)	DnB NOR (Norway)	GDF Suez (Belgium-France)
Anglo American (UK)	BP (UK)	DNO (Norway)	Generali (Italy)
Ansaldo STS (Italy)	BPI (Portugal)	DSM (Netherlands)	Genmab (Denmark)
Antofagasta (UK)	BRE Bank (Poland)	DSV (Denmark)	Geox (Italy)
Arcelor Mittal (France-Netherlands-Spain)	Brisa (Portugal)	E.ON (Germany)	Getin Holding (Poland)
ASML Holding (Netherlands)	British American Tobacco (UK)	EADS (France)	Getinge (Sweden)
Assa Abloy (Sweden)	British Sky Broadcasting (UK)	Ebro Puleva (Spain)	GlaxoSmithKline (UK)
Asseco Poland (Poland)	BT (UK)	EDP (Portugal)	Global Trade Center (Poland)
Associated British Foods (UK)	Bulgari (Italy)	EDP Renewables (Portugal)	Golden Ocean (Norway)
AstraZeneca (Sweden-UK)	Buzzi Unicem (Italy)	Electricité de France (France)	Grifols (Spain)
Atlantia (Italy)	Bwin (Austria)	Electrolux (Sweden)	Gruppo Editoriale L'Espresso (Italy)
Atlas Copco (Sweden)	Cairn Energy (UK)	Elisa (Finland)	Heineken (Netherlands)
Autogrill (Italy)	Cap Gemini (France)	Enagás (Spain)	Henkel (Germany)
Aviva (UK)	Cargotec (Finland)	Endesa (Spain)	Hennes & Mauritz (Sweden)
Axa (France)	Carlsberg (Denmark)	ENEL (Italy)	Holcim (Switzerland)
BAE Systems (UK)	Carnival Corporation (UK)	ENRC (UK)	HSBC (UK)
BAM (Netherlands)	Carrefour (France)	Ericsson (Sweden)	Iberdrola (Spain)
Banca Monte Paschi Siena (Italy)	Centrica (UK)	Erste Bank (Austria)	Iberdrola Renovables (Spain)
Banca Popolare di Milano (Italy)	ČEZ (Poland)		Iberia (Spain)

Imperial Tobacco (UK)	Nordea Bank (Denmark-Sweden)	Sainsbury (UK)	Telekomunikacja Polska (Poland)
Impregilo (Italy)	Norsk Hydro (Norway)	Saint Gobain (France)	Telenet (Belgium)
Inapa (Portugal)	Novartis (Switzerland)	Saipem (Italy)	Telenor (Norway)
InBev (Belgium)	Novo Nordisk (Denmark)	Salzgitter (Germany)	TeliaSonera (Finland)
Inditex (Spain)	Novozymes (Denmark)	Sampo (Finland)	Tenaris (Italy)
Indra (Spain)	Obrascón Huarte Lain (Spain)	Sandvik (Sweden)	Terna (Italy)
Infineon Technologies (Germany)	Oesterreichische Post (Austria)	Sanofi Aventis (France)	Tesco (UK)
ING (Netherlands)	Old Mutual (UK)	Sanoma (Finland)	Thyssenkrupp (Germany)
Intercell (Austria)	Omega Pharma (Belgium)	SAP (Germany)	Tieto (Finland)
InterContinental Hotels Group (UK)	OMV (Austria)	SBM Offshore (Netherlands)	TNT (Netherlands)
Intesa Sanpaolo (Italy)	Orion (Finland)	SCA (Sweden)	TomTom (Netherlands)
Investor (Sweden)	Orkla (Norway)	Scania (Sweden)	Topdanmark (Denmark)
Italcementi (Italy)	Outokumpu (Finland)	Schneider Electric (France)	Total (France)
Jerónimo Martins (Portugal)	Outotec (Finland)	Schoeller Bleckmann (Austria)	TrygVesta (Denmark)
Julius Bär (Switzerland)	Parmalat (Italy)	Scottish & Southern Energy (UK)	Tullow Oil (UK)
Jyske Bank (Denmark)	PBG (Poland)	Seadrill (Norway)	TVN (Poland)
K+S (Germany)	Pearson (UK)	SEB (Sweden)	UBI Banca (Italy)
KBC (Belgium)	Pernod Ricard (France)	Securitas (Sweden)	UBS (Switzerland)
Kemira (Finland)	Petroleum Geo-Services (Norway)	Semapa (Portugal)	UCB (Belgium)
Kesko (Finland)	PGNIG (Poland)	Semperit (Austria)	Umicore (Belgium)
KGHM Polska Miedz (Poland)	Philips (Netherlands)	Sevan Marine (Norway)	Unibail-Rodamco (France-Netherlands)
KONE (Finland)	Pirelli (Italy)	SGS (Switzerland)	Unicredito Italiano (Italy)
Konecranes (Finland)	PKN ORLEN (Poland)	Shire (UK)	Unilever (Netherlands-UK)
KPN (Netherlands)	PKO Bank Polski (Poland)	Siemens (Germany)	Unipol (Italy)
Lafarge (France)	Pohjola Pankki (Finland)	Skanska (Sweden)	UPM-Kymmene (Finland)
Lagardère (France)	Polimex-Mostostal (Poland)	SKF (Sweden)	Vallourec (France)
Linde (Germany)	Polska Grupa Energetyczna (Poland)	Snam Rete Gas (Italy)	Veolia Environnement (France)
Lloyds Banking Group (UK)	Portucel (Portugal)	Société Générale (France)	Verbund (Austria)
Lonza (Switzerland)	Portugal Telecom (Portugal)	Solvay (Belgium)	Vestas Wind System (Denmark)
L'Oréal (France)	PPR (France)	Sonae (Portugal)	Vienna Insurance Group (Austria)
Lotos (Poland)	Prudential (UK)	Sonae Indústria (Portugal)	Vinci (France)
Lottomatica (Italy)	Prysmian (Italy)	Sonaecom (Portugal)	Vivendi (France)
Lundbeck (Denmark)	PSA Peugeot Citroën (France)	SSAB (Sweden)	Vodafone (UK)
Lundin Petroleum (Sweden)	Raiffeisen International (Austria)	Standard Chartered (UK)	Voestalpine (Austria)
Luxottica (Italy)	Randgold Resources (UK)	Statoil (Norway)	Volkswagen (Germany)
LVMH (France)	Randstad (Netherlands)	STMicroelectronics (France-Italy)	Volvo (Sweden)
MAN (Germany)	Rautaruukki (Finland)	Stora Enso (Finland)	Wärtsilä (Finland)
MAPFRE (Spain)	Reckitt Benckiser (UK)	Storebrand (Norway)	Wereldhave (Netherlands)
Marine Harvest (Norway)	Red Eléctrica (Spain)	Strabag (Austria)	Wienerberger (Austria)
Mayr Melnhof (Austria)	Reed Elsevier (Netherlands-UK)	Subsea 7 (Norway)	William Demant Holding (Denmark)
Mediaset (Italy)	REN (Portugal)	Suez Environnement (France)	Wolters Kluwer (Netherlands)
Mediobanca (Italy)	Renault (France)	Svenska Handelsbanken (Sweden)	WPP (UK)
Mediolanum (Italy)	Renewable Energy Corporation (Norway)	Swatch (Switzerland)	Xstrata (UK)
Merck (Germany)	Repsol YPF (Spain)	Swedbank (Sweden)	Yara (Norway)
Metro (Germany)	RHI (Austria)	Swedish Match (Sweden)	YIT (Finland)
Metso (Finland)	Richemont (Switzerland)	Swiss Life (Switzerland)	ZON Multimédia (Portugal)
Michelin (France)	Rio Tinto (UK)	Swiss Re (Switzerland)	Zumtobel (Austria)
Mobistar (Belgium)	Roche (Switzerland)	Swisscom (Switzerland)	Zürich Financial Services (Switzerland)
Morrisons (UK)	Rolls Royce (UK)	Sydbank (Denmark)	
Mota-Engil (Portugal)	Royal Bank of Scotland (UK)	Syngenta (Switzerland)	
MTG (Sweden)	Royal Boskalis Westminster (Netherlands)	Synthes (Switzerland)	
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National Grid (UK)	Royal Dutch Shell (Netherlands-UK)	Tecnicas Reunidas (Spain)	
Neste Oil (Finland)	RWE (Germany)	Telez (Sweden)	
Nestlé (Switzerland)	SABMiller (UK)	Telecinco (Spain)	
NKT Holding (Denmark)	Sacyr Vallehermoso (Spain)	Telecom Italia (Italy)	
Nokia (Finland)		Telefónica (Spain)	
Nokian Renkaat (Finland)		Telekom Austria (Austria)	

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