HEIDRICK & STRUGGLES

TOWARDS DYNAMIC GOVERNANCE 2014

European Corporate Governance Report

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Preface

Heidrick & Struggles' *Corporate Governance Report* for 2014 offers a thought-provoking perspective on the practice of corporate governance in Europe.

The report draws in data from 15 countries and the top 400 publicly listed companies on stock exchanges within each of the countries.

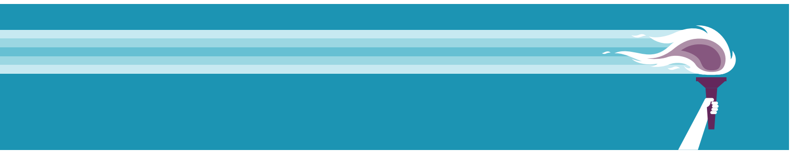
In addition, we conducted an online survey to ascertain the opinions of 236 board members across Europe and shared our initial findings with a group of experts on the boardroom and the corporate governance debate, as well as CEOs, chairmen and other board directors.

The result is a unique, up-to-date insight (research was carried out between April and June 2013) into the reality of corporate governance in Europe.

As you will see, we are at a critical point in the evolution of corporate governance. As standards and regulations have become bedded down in practice, some fundamental issues remain to be resolved.

Looking back at our previous corporate governance reports, what is striking is that change is ever-present. Corporate governance evolves and moves on. The nature of leadership and of organisations changes. **The challenge to us all, as individuals, directors and leaders, as well as to our organisations, couldn't be plainer: to embrace change in order to maximise performance.**

Peter Lever
Managing Partner
Board and CEO Practice , Europe



INTRODUCTION

Over the last decade corporate governance – how companies are directed and controlled – has entered the mainstream.

After the ethical scandals from Enron to Worldcom at the start of the new century, greater attention than ever before has been paid to corporate governance both inside and outside corporations. A host of regulations, standards, initiatives, programmes, and much more have emerged; from Sarbanes Oxley to the OECD's updated *Principles of Corporate Governance*.

Some of this activity was undoubtedly necessary and useful. But some sought to transform corporate governance into an administrative exercise, a succession of boxes to be ticked. The focus of boards worldwide has increasingly shifted to compliance rather than excellence.[1]

"It is important to pay attention to corporate governance but it must not be allowed to dominate the agenda to the detriment of the board not spending enough time on the business," noted one interviewee in our research. "The burden of compliance and reporting is becoming too time-consuming," lamented another.[2]

But, corporate governance can never stand still. Our expectations of boards change constantly – especially in our hypercompetitive and turbulent times. What was acceptable behaviour a decade ago is often now viewed very differently. Companies worldwide increasingly appreciate that effective boards need to move beyond mere compliance to create flexible and dynamic governance.

The demand for dynamic governance is based on two main realisations:

First, leadership starts at board level. How, and to what end, leadership is exercised by the board of directors of a company sets the standard for any organisation.

Second, governance is a means of enabling and driving business performance. All things being equal, well governed companies excel.

This new breed of dynamic governance responds quickly and adaptively to the changing circumstances of business. It is agile and resilient, constantly evolving. It is governance on the front-foot, rather than governance characterised by defensiveness and bureaucracy. It is built on the appreciation that the most effective companies are those who anticipate what's happening and what's going to happen in the business world. **The best companies do not wait to be governed. Instead, they shape the debate and set best practice.**

As one of our interviewees put it: "In an economically unstable environment, agility and resilience are more than ever key company assets. In this context, the effectiveness of the dynamic between governance actors acquires more importance than the classical architecture approach."

Another observed: **"It is important that corporate governance does not become a one size fits all compliance exercise.** It is about how the company is run at the top – principles and people (and their judgement) will always be most important."

1 While we refer to boards generally it is worth noting that there are a number of systems relating to board structures across Europe (e.g. unitary or two-tier systems). Germany is a strong case in point, where the board system and the inclusion of worker representation has an impact on our benchmark data. Where this was felt to have a potential impact, a footnote is provided at the bottom of each table clarifying the data measurement.
2 All quotations and statistics are drawn from our research unless otherwise stated.

> *"There is a spirit of governance. This spirit is inextricably linked to the culture and performance of an organisation."*

Key to all this is a belief that corporate governance is not an act of compliance but that **there is a spirit of governance.** This spirit is inextricably linked to the culture and performance of an organisation. The best companies explore what this spirit really means and what its implications might be. As they think about how the company is governed, they consider what it means to be well governed and what stakeholders require. **It is not minimal compliance, but maximum engagement and impact.**

For some this is a daunting prospect. Dynamic governance requires a more adult conversation between stakeholders and board members, as well as between board members. The question must be whether boards are up to this level of debate and willing to invest time in making it happen.

Dynamic governance demands that boards be more externally focused. They need to be connected with a broadening range of stakeholders and society. As Sir Adrian Cadbury argued, corporate governance "should recognise the rights of stakeholders established by law or through mutual agreement and encourage active co-operation in creating wealth, jobs and the sustainability of financially sound enterprises".[3]

This also requires judgement rather than the one-dimensional application of a rule book. It embraces the reality that there are grey areas to governance and that they need to be navigated with integrity, insight and intelligence.

What, then, are the characteristics of dynamic governance? Our biennial research identifies six characteristics that boards need to develop and foster if they are to achieve dynamic governance.

Of course, compliance is necessary and important. But, the route to excellence in corporate governance lies in understanding and acting on these six elements to achieve truly dynamic governance.

THE SIX CHARACTERISTICS OF **DYNAMIC GOVERNANCE**

Deep business knowledge

Board members must understand the commercial DNA of the company.

Diversity of thought

The most critical attribute consistently identified as important to board effectiveness is having the right balance of skills, knowledge and experience to constructively challenge management.

Engaged leadership

The chairman is the guardian of dynamic governance. The chairman choreographs a board and provides leadership.

Strategic alignment and execution

Boards must use their knowledge and experience to help executives develop robust and sustainable strategies.

Capacity to adapt

In changing times, boards must be able to change direction and to tack with strategic, financial, market and human changes.

Leadership talent

Identifying, developing and utilising talented people lies at the heart of governance. Talent and succession planning need to top the boardroom agenda and be acted upon.

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3 Cadbury, Sir Adrian, "Widening role of corporate governance", *Corporate Governance*, 6 (3), 2006

DEEP BUSINESS KNOWLEDGE

Curiosity is a prerequisite – inspect don't expect

Any debate is only as good as the quality of the information and knowledge at work. Chairmen and boards must possess deep insights into the business.

They must understand the company's commercial DNA – how it makes money, its sources of competitive advantage, its business model, its competitors, its vision, its strategy. Without this knowledge the board is flying blind and can't hold the executive management properly to account.

This sounds obvious and straightforward. But, accumulating knowledge and information provides a number of challenges. The breadth of knowledge required of board members is large and expanding. They need company and industry knowledge, but they must also understand the team and leadership dynamics of the organisation.

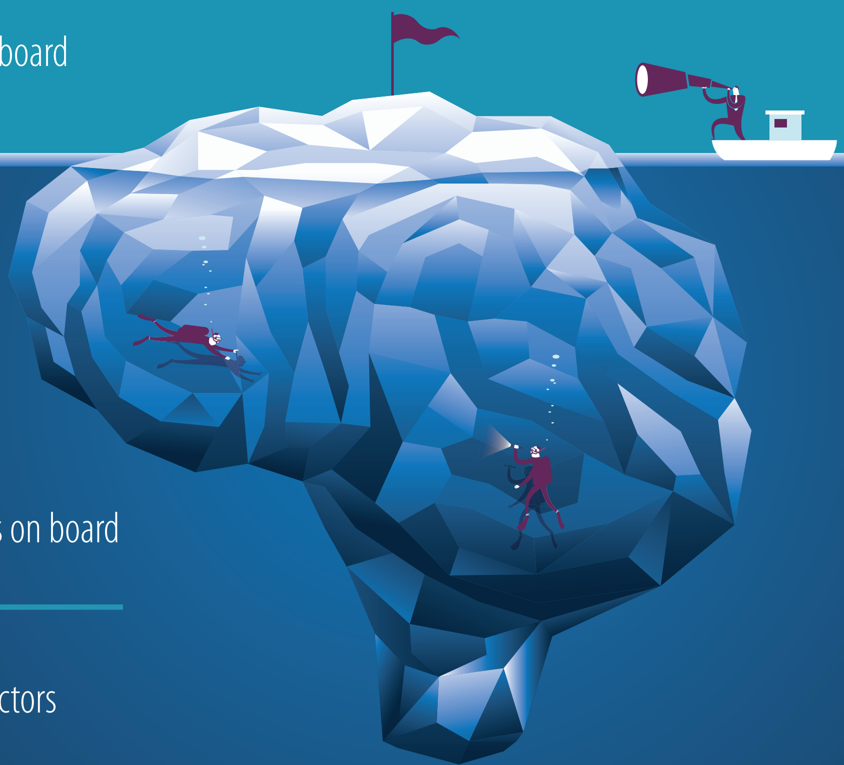
This means that directors need highly attuned antennae; an ability to tune into the internal and external context of the business. **Curiosity is a prerequisite – "Inspect don't expect,"** advised one interviewee. And, extracting the right information requires determination. It is worth noting that board members cannot automatically rely on the information they receive from within the boardroom.

All of this requires that non-executive directors put extensive efforts into really knowing the company. Increasingly, they are expected to do so. (Members of boards in the UK's financial services sector have to be approved by the Financial Conduct Authority). Expectations are now much greater. But, there is clearly a limit to what a non-executive director can be expected to do. It is important that the line between the responsibilities of non-executives and executives is maintained.

In the long-term this is likely to lead to slightly larger boards to provide greater diversity. While there remains no common view as the optimum size of a board, over the last decade the average number of directors per board has remained largely static at 12.

At the heart of constructive debate is the relationship between the executive team (the insiders) and the non-executive directors (the outsiders). This needs to be both clearly understood and properly managed. The roles should be well demarcated, boundaries need to be drawn

12 European average
Number of directors per board



20% / **80%**
European average
Executive / Non-executive directors on board

98% **Norway** non-executive directors
59% **Poland** non-executive directors

and redrawn. Otherwise, it is all too easy for the two sides to fall into an "us versus them" mentality. Or, worse still, the outsiders may abdicate responsibility by acting as a rubber stamp for the decisions of a strong CEO and their top team.

The importance of non-executive directors is emphasised by the fact that across Europe around 80% of board members are non-executives. Influenced by regulation, this proportion varies from 59% in Poland to 98% in Norway.

It is notable in our research that there is an under-current of feeling that the balance of the board is important but not achieved.

Being a non-executive director means being prepared to take the flak rather than sitting comfortably back and asking easy questions. To truly contribute and to offer valuable insights requires in depth business knowledge and an ability to tap into context.

> *"Being a non-executive director means being prepared to take the flak rather than sitting comfortably back and asking easy questions."*

17% Proportion of women

58.2 Director's age

30% Proportion of non-nationals

European board diversity averages

DIVERSITY OF THOUGHT

Diversity must be rooted in meritocracy and the attainment of business goals. The needs of the business drive diversity.

The stereotypical corporate board is male, pale and stale. "My memory from my first board meeting as a director was how well reality corresponded with my prejudice," one board member confided.

"I decided my role was to ask intelligent questions rather than make authoritarian statements. What I found around the table were old timers with different ideas. They played their game and enjoyed listening to their own voices. Worst of all, they did not like team play. They were almost all CEOs, used to being surrounded by heel clicking associates. It didn't take long before I became one of them and behaved as they did. The board represented superior strategic thinking, the VPs didn't understand much, and when things didn't work it was their fault."

This stereotype has largely been consigned to history. Academic research (by Harvard's Robin Ely and David Thomas among others) repeatedly proves that diversity pays off.[4] **There is appreciation that boards need to contain a range of personalities, characters, skills and backgrounds if they are to function successfully.** A total of 63% of survey respondents rated a diverse gender and nationality mix as being important for board effectiveness. If boards are to be more alert to the external environment their make up must mirror that environment.

The debate about diversity tends, inevitably, to focus on how many – or how few – women now sit on boards. This is undeniably important. But, despite all the publicity

4 Lagace, Martha, "Racial diversity pays off", *HBS Working Knowledge*, 21 June 2004

"The selection of the right people for the board is increasingly critical. Diversity of thought is the key."

this issue attracts and the introduction of quotas in some countries, the figures remain low. **The proportion of women on European boards is 17%.** This figure is higher the further north you move. The lowest proportions are in Portugal (8%) and Poland (8%). The more positive news is that the trend is upwards. The proportion of women on European boards has increased by nearly 70% over the last four years. It is also notable that women are more likely to fill the role of independent and non-executive directors.

Age is another area of debate. The reality is that the people on boards tend to be those who have accumulated years of relevant and useful experience. In Italy and Spain around one in six board members are over seventy. **The overall average of board directors is 58.2.** Chairmen tend to be in their sixties and CEOs in their early fifties. Over a third of European board members have some form of CEO experience.

Boards are also becoming more international in their make-up. The proportion of non-national directors on boards is 30% – up from 23% in 2009. Companies are increasingly eager to add board members with experience and expertise in Asia.

Of course, it is one thing to be willing to build a more diverse board and quite another to do so. Heidrick & Struggles surveys show that nearly two-thirds of directors find it difficult to hire well-qualified ethnic minorities and more than half reported that it was hard to hire qualified women directors. Nor is there widespread trust in the mechanisms for fostering diversity. Among men on boards, only 13% support quotas compared with 41% of women directors.

Board members argue strongly that diversity for diversity's sake is dangerous and likely to be self-defeating. Instead, diversity must be rooted in meritocracy and the attainment of business goals. The needs of the business drive diversity.

And more diversity appears an unstoppable trend. "Boards will also need to widen their lens beyond executives with operating experience and look for diverse candidates who are in functional roles, former government or military leaders, who serve not-for-profits or are entrepreneurs," predicts the Heidrick & Struggles report Bringing Asia onto the Board.

The selection of the right people for the board is increasingly critical. This must be based on a desire to learn rather than tokenism. Attracting a board made up of people with diverse skills, experiences and outlooks enables the board to avoid group think and to make the right decisions for the business. Diversity of thought is the key.

ENGAGED LEADERSHIP

The modern chairman requires an "all-court game"

The job of the chairman is to manage the balance of skills, knowledge and experience on the board, and to constructively challenge management and the non-executive directors to drive outstanding performance. As one chairman described it, the modern chairman requires an "all-court game", a level of versatility and adaptability which was not previously required.

215 / 155

Average **hours of board service**
2013 / 2003

11% Directors have **3 or more** NED roles

The relationship between the CEO and the chairman is key to the effective functioning of a board. Leadership is a team sport. Where the role of CEO and chairman is split – only one in five boards now have combined roles – much depends on their relationship. They have to work together. There has to be absolute trust and respect between them. If not, the company will quickly encounter problems. In a political sense, the two roles might be likened to the Prime Minister and the Chancellor of the Exchequer.

Overlap can be dangerous. The chairman runs the board and evaluates strategy, manages corporate governance and manages non-executives. The CEO runs the company and manages dialogue with shareholders. Increasingly, such clear management divides no longer exist. Now, the chairman's role involves being in touch with and reaching out to the external environment as well as enabling the board to function as a team. The chairman has to bring wise judgement and counsel, to act as a guide and mentor.

The best CEOs recognise that the chairman has an important role to play. At times this might mean saving the CEO from themselves.

Research by Andrew Kakabadse of Henley Business School, and author of *Leading the Board*, suggests that much more needs to be understood about what a world class chairman does. "If the CEO is the heart of the company pumping vibrancy through its very core, the chairman is the soul of the corporation, its conscience, its moral keeper," he says.[5]

Kakabadse uses an automobile analogy: It is the chairman who is ultimately responsible for the roadworthiness of the vehicle, and the safety of all those on board – shareholders, employees, and customers. He or she must ensure that the CEO (the driver) is carrying out the necessary safety checks on the vehicle, that there is enough rubber on the tyres, petrol in the tank, oil in the engine, and water in the windscreen washers. The chairman must also ensure that the necessary licences are up to date and the paperwork is in order if they get pulled over.

But, and it is an important but, the CEO must be allowed to operate the throttle and steer the car. The chairman sits in the passenger seat. They are there to stamp on the brakes or grab the wheel if required. The chairman and the board should be consulted on the destination, but they must not interfere while the CEO is driving, and they should leave the actual route to the executive team.

In essence, chairmen are leaders. As such they need to develop and display leadership styles that are focused on business performance but engage the commitment of executives and non-executives.

The reality is that being a chairman means exercising a much more subtle form of leadership. Their role is fluid, depending on the context of the board and the business. Their power is discharged in a very different way. They have to bring together a team of people who don't see each other very often and get them to work together. **The best chairmen are not charismatic megalomaniacs. They work hard on team dynamics. This requires a sophisticated understanding of people.**

The chairman needs to be close enough to the day-to-day activities of the company to ask questions and call the management to account. But, the need for external awareness demands that chairmen spend time outside the company.

> *"If the CEO is the heart of the company pumping vibrancy through its very core, the chairman is the soul of the corporation, its conscience, its moral keeper."*

There is some concern that chairmen need to spend more time in top companies. (According to the National Association of Corporate Directors, the hours individual directors devote to board service has grown from 155 per year a decade ago to an average of 200–230.[6]) Clearly, whether they are working with an inexperienced CEO has an impact on the time needed. Given the scale and complexity of these organisations, chairmen need be able to flexibly adapt their schedules and commitments when required. This is an issue which is likely to become more important. Leadership demands time.

5 Kakabadse, Andrew and Kakabadse, Nada, *Leading the Board*, Palgrave Macmillan, 2008

6 National Association of Corporate Directors, *2012–2013 Public Company Governance Survey*, 2013

STRATEGIC ALIGNMENT AND EXECUTION

Organisational nirvana occurs when everyone knows where they are going, the strategy for getting there and then makes that happen.

The theory is alluringly easy; practice, devilishly difficult.

Research has found, dauntingly, that 85% of UK board directors cannot clearly identify or agree between themselves how the organisation is differentiated from the competition or what is the firm's competitive advantage.[7] Research by McKinsey found that around one-third of directors say they have a complete understanding of current strategy.[8]

Our own research found that chairmen and CEOs commonly don't agree on how the company is – and should be – performing. This is perhaps not as surprising – or as depressing – as you might think. **Successful conversion of strategy to execution requires a number of vital elements: clarity, commitment, consistency, capability and constancy.**

"It is even more crucial these days for boards to resemble a Great Group, more than ever before," says Warren Bennis, distinguished professor of business at the University of Southern California and author of *On Becoming a Leader*. "That means, among other things, shared goals, a healthy respect for the institutions they are trustees of, and full transparency. This isn't easy when the board members do not meet regularly, often have day jobs elsewhere and where deadlines and decisions are of a different order than those of insiders. That leads to a difficult, hard to achieve, but absolute imperative goal: transcending the inherent 'role strain' of all board members of public institutions. They have to be loyal and affirming board members and simultaneously critical and watchful of the fiduciary and leadership performance of the firm. In short, they cannot be uncritical lovers but have to be loving critics to the institutions which they are paid to serve."[9]

Stakeholders increasingly look to the boards of corporations to explain how what they are doing fits in with the company's strategy. Boards must engage in strategic debate, they must explain the agreed strategy to align all stakeholders around it, but also ensure the execution of strategy.

There are a great many potential pitfalls and grey areas. The board plays a key linking role in uniting strategy, communication and execution.

7 Kakabadse, Andrew and Kakabadse, Nada, *Leading the Board*, Palgrave Macmillan, 2008

8 McKinsey & Company, *Improving board governance*, 2013

9 Dearlove, Des, "Boards of deflectors", *Business Strategy Review*, Spring 2008

6 European average
Number of **years on the board**

7% Increase since 2011

6% Turnover rate in the last 4 years

"In short, they (board members) cannot be uncritical lovers but have to be loving critics to the institutions which they are paid to serve."

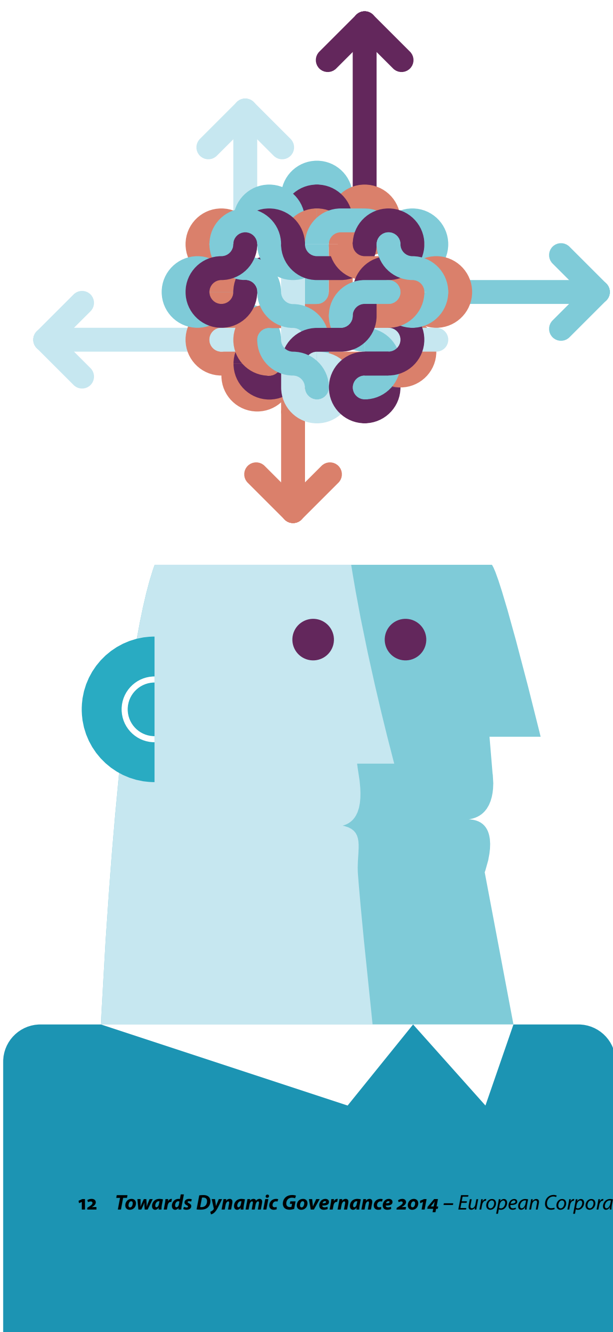
For any strategy to be sensibly developed and seen through to execution requires some degree of consistency of personnel. It is interesting, therefore, that the average number of years on boards appears to be increasing. Directors now spend around 7% longer on boards than they did in 2011. On average directors have been on boards for 6 years – the prize for longevity goes to boards in Belgium which has the highest average. **"So much depends on longevity of CEO and chairman. The board can focus on strategy if the stability of management is clear,"** said one interviewee.

Interestingly, little is known about the impact of a new director on board dynamics. The delicate chemistry of personalities and viewpoints can easily be undermined. It is important also that boards carefully think through the induction process for new members.

Alternatively, longevity can lead to torpor. According to the Heidrick & Struggles Board Monitor, which tracks board trends in the Fortune 500, the number of new directors appointed over the last four years averages at 317 – a turnover rate of only 6%.

A balance needs to be struck. Around one in five independent directors on European boards have been in their role for more than nine years. Strategic vigour may well diminish with length of service.

CAPACITY TO ADAPT



World class boards try to anticipate the next development – to future proof the company

One of the greatest challenges facing corporate governance is that it is seen and often interpreted and implemented inflexibly. This is out of kilter with organisational reality. In the face of continuous change and relentless competition the capacity to adapt is a key competency. Organisations – and boards – must be able and willing to change direction if and when required. Governance, at its best, is forward looking but fully aware of the lessons of past performance.

63% Rated their own boards as **'Satisfactory'** in innovating and adapting

In our survey, 94% of respondents rated their board's capacity to consider the acceptance of appropriate risks as important. Only 63% rated their own board as satisfactory in innovating and adapting.

In practice, the capacity to adapt first requires that the conditions that create uncertainty are properly analysed by the organisation. Gathering robust evidence of changes in markets, financial, operating and technological conditions will enable boards to make informed decisions. Firms that demonstrate resilience in turbulent markets have the ability to collect and process this evidence, sense changes in data swiftly and process weak signals from the periphery.

Boards must decide who is asking the critical questions about the balance between today's business and future options. Who is assessing the risk of the future asteroids that might cross the company's path? **World class boards try to anticipate the next development – to future proof the company.**

Balancing resilience and flexibility is always difficult. Any business must seek out the right blend of capabilities for today's operations while investing sufficiently to be ready for tomorrow's opportunities and threats. The chairman has an important role in challenging the executive team to keep an eye on this balance.

Business resilience needs to be given sufficient time to be discussed so that the board can provide guidance and direction on the risk register. **Ensuring that the discussion of business resilience receives a balanced share of the board agenda should be driven by chairmen.** Making it a regular item on the board's agenda or establishing a sub-group helps keep this as a priority.

Technology and people underpin longevity. For example, technology road-maps linked to data on market trends can reveal new opportunities to grow revenue. And well connected R&D teams can tap into new independent thinking from knowledge centres, universities and organisations. In particular, the chairman and the board should probe the extent to which the CEO has developed appropriate relationships with other organisations to enable it to draw on the knowledge required to innovate.

Whatever the approach, businesses that demonstrate a capacity to adapt typically have a deep understanding of their core capabilities and innovate by investing in new skills. They are also led by chairmen who pay attention to creating the capacity to adapt; have boards which receive reports on the levels of risk, uncertainty and innovative responses underway; and which take on the individual responsibility to challenge the CEO on the balance between today's activities and future options.

> *"Whatever the approach, businesses that demonstrate a capacity to adapt typically have a deep understanding of their core capabilities and innovate by investing in new skills."*

LEADERSHIP TALENT

People execute strategy

Identifying and developing leadership talent and planning succession issues among a company's leaders is often on the to-do list of boards. There it can remain.

If boards are there to think about the long-term, then they need to invest time and thought into planning the flow of talent. People execute strategy. This means that boards must, for example, use more sophisticated recruitment techniques than simply interviewing likely candidates.

Succession is more than a decorative plan filed away somewhere; it is about finding realistic successors to fit with the business's unique context. As Boris Groysberg of Harvard Business School puts it: "In the long run, the systematic development of stars is the most effective strategy to create a sustainable competitive advantage."[10]

There is near universal agreement on boards that talent performance and engagement in succession planning is important. An impressive 92% agree. The trouble is that only 55% rate their own board's performance as satisfactory. Similarly, 76% of respondents rated having clear criteria for the replacement of board members as important, yet only 62% rated their own board's performance in this area as satisfactory.

An earlier study by Heidrick & Struggles and the Rock Center for Corporate Governance at Stanford University found that on average, boards spend only two hours a year on CEO succession planning and only 50% have a written document detailing the skills required by the next CEO. More of our research discovered that only two-thirds of American directors said their boards had vetted at least one viable candidate who could immediately step in as CEO if necessary.

Our experience with succession planning suggests that best practice is characterised by six elements: a focus on the company's future needs rather than a rearward-looking replacement for the current CEO; engagement with key stakeholders to align an objective set of key skills, experience and personal qualities; the provision of opportunities for internal candidates to test and demonstrate their capabilities beyond the context of their current roles; an emphasis on building a team; understanding that succession is a continuous process and practice; and recognition that no candidate is ever likely to be perfect, they require robust and tailored support.

CEO succession is a sometimes emotive and always political journey. Everyone has a view and wants to have a say. It is important to have an objective process that recognises the emotional and subjective nature of succession and gives key stakeholders a sense of involvement. But, identifying and developing talent must begin with the board.

10 Groysberg, Boris, *Chasing Stars: The myth of talent and the portability of performance*, Princeton University Press, 2010

2 Hours a year spent on CEO succession planning

30% / 70% No / **Yes** Does the board have an **annual evaluation?**

50% Boards have **documented skills** that will be required by the next CEO

The reality is that managing the make-up of the board is a crucial responsibility for any chairman. They have to continually challenge the existing gene pool. More of the same is not an answer.

Subtle changes can make important differences. For example, having a CFO as well as the CEO on the board can offer a very different executive view.

Over recent years performance evaluations of boards have had an impact on board performance – particularly in the areas of team dynamics, processes, culture, competencies and behaviour.

According to the National Association of Corporate Directors, more than 90% of boards conduct full board evaluations and almost 83% conduct committee evaluations. But, the same survey found that less than half of boards evaluate individual directors and only slightly over 10% evaluate board members as apart of a 360-degree review.[11]

Our own research found that 70% of companies have an annual performance evaluation for the board. A sizable number (16%) never undertake an evaluation. External experts are used, but unevenly. Overall, one-third of companies reported using external consultants or facilitators as part of board evaluation at least once every two years. At the same time, 60% of respondents in Portugal and 40% in Sweden never used them.

Dynamic governance demands robust and continual evaluation of the board's performance as well as the identification and development of talented people. Neglecting these elements of dynamic governance comes with a heavy price.

"In the long run, the systematic development of stars is the most effective strategy to create a sustainable competitive advantage."

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11 National Association of Corporate Directors, *2011 Governance Survey*, 2011

DYNAMIC GOVERNANCE **IN CONCLUSION**

Of course, compliance is necessary and important. But, the route to excellence in corporate governance lies in understanding and acting on the six elements that achieve truly dynamic governance.

You may wish to assess the position of your own board on its journey towards dynamic governance by considering the following questions.

Deep business knowledge

- In what ways does the board demonstrate it understands the commercial DNA of the company?
- What steps have been taken to ensure that the board is not flying blind and can hold the executive management properly to account?

Diversity of thought

- How does the board demonstrate that it has the right balance of skills, knowledge and experience to constructively challenge management?
- How would you describe your organisation's approach to diversity? Is it characterised by diversity for its own sake or is it diversity driven by business needs?

Engaged leadership

- How would you describe the leadership style practised by your Chairman and senior board members? Does it add to or diminish the effectiveness of the board – and in what ways?
- What steps have been taken to ensure that the Chairman has an appropriately varied range of skills?

Strategic alignment and execution

- How does your board use its knowledge and experience to help executives develop robust and sustainable strategies?
- In what ways does the board demonstrate it understands, shares and is aligned around these strategies?

Capacity to adapt

- Who asks the critical questions about the balance between today's business and future options? Who assesses the risk of future asteroids that might cross the company's path?
- What steps has the board taken to challenge the CEO on the balance between today's activities and future operations?

Leadership talent

- How much time does your board invest in planning the flow of leadership talent within the company?
- How robust is your succession process?

How many of the **six best practices** we have identified do you utilise and implement?

CORPORATE GOVERNANCE **BENCHMARKS 2014**

For the 2014 report we have streamlined the presentation of key benchmarking data into three complementary sections.

Structure
The shape of the board

This deals with the structural elements of board governance: the size of boards; the proportion of executive and non-executive members; and the number and type of committees that support the board.

Composition
Who is on the board?

This offers a demographic benchmark of the membership of boards across Europe. Details of age and gender are supplemented by benchmark data on the number of directors with CEO experience, the longevity of board service and the workload of directors in public companies.

Board evaluation
How is the board performing?

Our focus here is on the board membership evaluation processes. In particular, how often performance is evaluated, by whom and who is held responsible for leading the process.

STRUCTURE THE SHAPE OF THE BOARD

With one or two exceptions, the shape and structure of boards in Europe has remained more or less unaltered over the past decade.

Size of board

The European average is 12.1 directors, unchanged from our 2011 benchmark and only marginally up from 11.8 directors in 2009.

There remain wide variations across the region: Finland has the lowest average at 7.5, while Germany, with the inclusion of worker representatives, has the highest at 17.

Across the 15 countries the average has remained more or less constant with the exception of Portugal and Belgium where the size of boards has declined (by around one member) to 14.1 and 12.5 respectively.

Representation

Non-executives continue to make up the majority of board representatives at 80%, although this is slightly down from 85% in 2011.

Norway, Switzerland, Sweden and France have more than 90% non-executive representation, while Portugal and Poland have around 60%.

On average 1 in 5 boards have chosen to combine the roles of CEO and Chairman.

Committees

The European average is up slightly at 3.4 committees, up from 3.0 in 2009.

The UK shows a marked increase from 3.9 to 4.4 board committees.

Audit, Remuneration and Nomination remain the primary committees but, increasingly, boards are adding Strategy (in France 65% of boards have a Strategy committee), Governance and Risk to their list of committees.

Figure 1

Average number of directors per board

* In Germany, boards include members of Workers Councils

2011	**2013**			*Average number of directors 2013*
12.1	**12.1**	■	2013 European average	**12.1**
17.1	**17.0**	▼	Germany*	**17.0**
14.3	**14.3**	■	Spain	**14.3**
15.2	**14.1**	▼	Portugal	**14.1**
14.2	**14.0**	▼	France	**14.0**
13.9	**14.0**	▲	Italy	**14.0**
13.8	**12.5**	▼	Belgium	**12.5**
12.4	**12.4**	■	United Kingdom	**12.4**
11.5	**11.8**	▲	Austria	**11.8**
10.7	**11.6**	▲	Sweden	**11.6**
10.4	**10.3**	▼	Switzerland	**10.3**
9.8	**10.0**	▲	Denmark	**10.0**
8.7	**8.6**	▼	Netherlands	**8.6**
8.0	**8.5**	▲	Norway	**8.5**
8.2	**8.3**	▲	Poland	**8.3**
7.8	**7.5**	▼	Finland	**7.5**

Figure 2

Proportion of non-executives on the board

* excluding Norway and Poland

86%
2009*

85%
2011 ▼

80%
2013 ▼

Figure 3

Proportion of executive to non-executive directors (%)

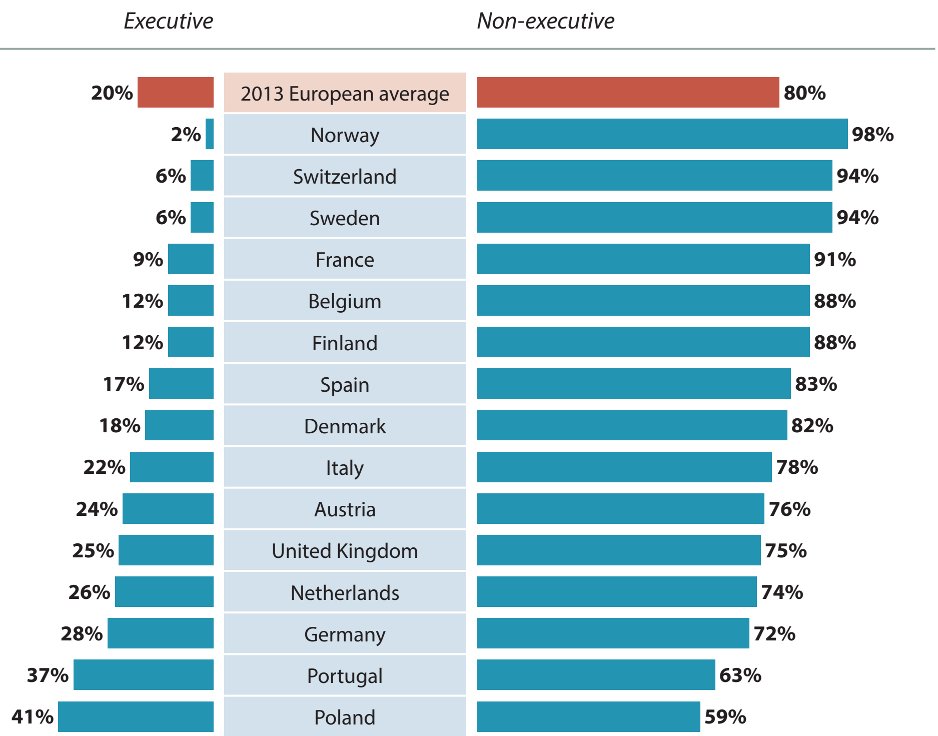


Figure 4

Proportion of boards where CEO and chairman roles are combined (%)

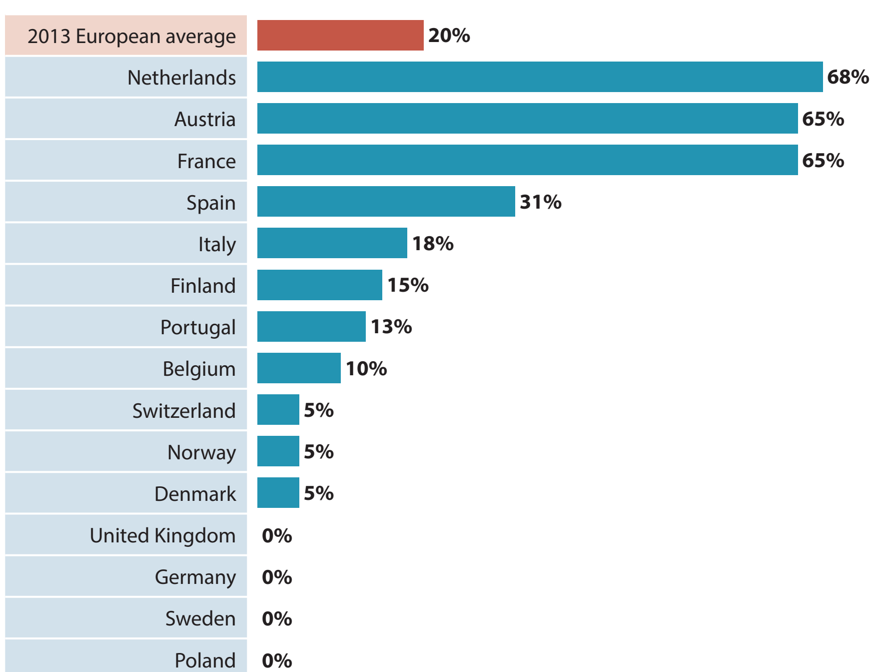


Figure 5

Average number of board committees

* excluding Norway and Poland

3.0	3.0	3.4
2009*	2011 ■	2013 ▲

Figure 6

Average number of board committees that support the board

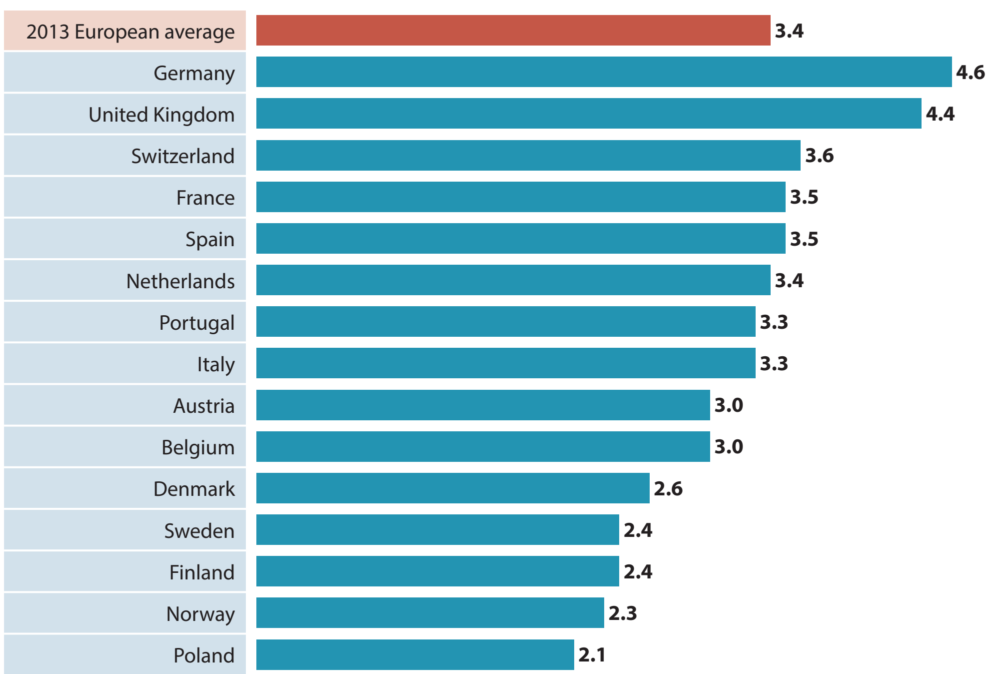


Figure 7

Committees by country (%)

	Audit & Control			Remuneration			Nomination			other key committees	
	2011	**2013**		2011	**2013**		2011	**2013**		**2013**	
2013 European average	98%	**96%**	▼	91%	**89%**	▼	71%	**73%**	▲		
Austria	100%	**100%**	■	85%	**85%**	■	70%	**65%**	▼		
Belgium	100%	**100%**	■	90%	**95%**	▲	95%	**85%**	▼		
Denmark	95%	**100%**	▲	58%	**75%**	▲	11%	**55%**	▲		
Finland	96%	**95%**	▼	95%	**90%**	▼	58%	**75%**	▲		
France	100%	**95%**	▼	98%	**95%**	▼	95%	**95%**	■	Strategy	**65%**
Germany	97%	**97%**	■	90%	**90%**	■	93%	**97%**	▲		
Italy	98%	**98%**	■	95%	**95%**	■	30%	**80%**	▲		
Netherlands	100%	**100%**	■	96%	**100%**	▲	96%	**100%**	▲		
Norway	100%	**90%**	▼	75%	**85%**	▲	15%	**30%**	▲		
Poland	89%	**85%**	▼	58%	**55%**	▼	16%	**15%**	▼		
Portugal	85%	**85%**	■	100%	**90%**	▼	25%	**45%**	▲	Corporate Governance	**60%**
Spain	100%	**100%**	■	100%	**94%**	▼	100%	**94%**	▼		
Sweden	100%	**95%**	▼	93%	**95%**	▲	100%	**100%**	■		
Switzerland	100%	**100%**	■	100%	**95%**	▼	80%	**75%**	▼	Corporate Governance	**65%**
United Kingdom	100%	**100%**	■	100%	**100%**	■	100%	**100%**	■		

"Important that the formalities don't take too much time so that the board meeting can concentrate on strategy."

COMPOSITION WHO IS ON THE BOARD?

Our benchmarks focus on the demographics of boards across Europe: age, experience, tenure and both gender and nationality diversity.

Age of directors

The average age of European board directors is 58.2, little changed from previous reports.

Spain and Italy tend to have a large proportion of directors (around 1 in 6) aged over 70.

Almost half of Polish directors are aged 50 or under.

Senior board roles tend to be held by older directors with the average for Chairman (63.5), Senior Independent Director (62.2) and Deputy Chairs (61.5).

Non-executive directors, executive directors and CEOs tend to be in their mid-50s: 56.7, 52.9 and 54.2 respectively.

CEO experience

Around one third of directors have previous CEO experience, down from 42% in 2011.

In France, Finland and Switzerland the figure is around 50%, while in Poland and Portugal the level is around 20%.

Board members aged 60 or over who have had previous CEO employment experience are more likely to become non-executive directors, with only around 1 in 5 (18%) becoming Chairmen.

Director commitments

Just 11% of directors hold 3 or more NED roles.

In Switzerland 28% of directors hold 3 or more NED roles, while in Spain and Poland the proportion drops to 1%.

Board tenure

Our benchmark suggests that board directors are serving longer, 6.1 years on average compared to 5.7 years in 2011.

Belgium tops the table with 7.8 years, while Norway and Poland see directors serving on average for 4.6 years.

Directors in Italy, UK and Netherlands serve on boards a third longer than they did in 2009.

Diversity of thought

Our data suggests that the proportion of women on boards has risen from 10% in 2009 to 17% in 2013.

The number of boards with no female representation has fallen sharply from 33% to 12% across the same period.

Overall, boards are becoming more international in their mix, with non-national directors now making up 30% of the director pool across Europe.

North American directors remain the largest proportion of this non-national group, but there are some notable increases in directors from Belgium and the Netherlands, Central and Eastern Europe where the proportion has increased from 4% in 2011 to 8% in 2013.

Figure 8

Average age of board directors

* in Germany, boards include members of Workers Councils

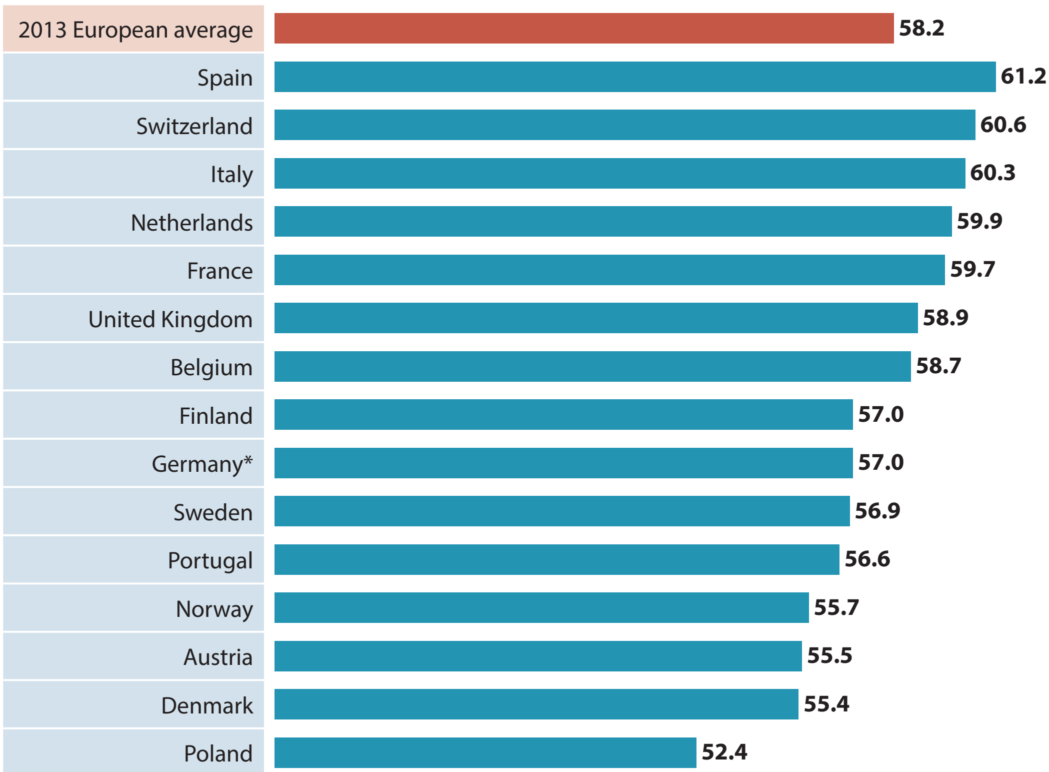


Figure 9

Average age of European directors

* excluding Norway and Poland

59.0
2009*

58.4
2011 ▼

58.2
2013 ▼

Figure 10

Age profile of board directors

Figures may not equal 100% due to rounding

	up to 50	*51 to 60*	*61 to 70*	*over 70*
2013 European average	**20.1%**	**38.8%**	**33.8%**	**7.4%**
Austria	**30.5%**	**37.8%**	**28.0%**	**3.6%**
Belgium	**20.1%**	**36.8%**	**35.9%**	**7.3%**
Denmark	**29.1%**	**45.7%**	**23.5%**	**1.7%**
Finland	**18.9%**	**45.7%**	**34.1%**	**1.2%**
France	**14.9%**	**36.9%**	**38.0%**	**10.2%**
Germany	**23.5%**	**44.9%**	**25.7%**	**5.8%**
Italy	**21.1%**	**27.0%**	**34.7%**	**17.2%**
Netherlands	**13.6%**	**32.7%**	**47.1%**	**6.6%**
Norway	**25.2%**	**48.3%**	**24.5%**	**2.0%**
Poland	**48.6%**	**32.6%**	**16.6%**	**2.3%**
Portugal	**24.3%**	**43.7%**	**23.6%**	**8.5%**
Spain	**12.9%**	**32.6%**	**39.6%**	**14.9%**
Sweden	**18.6%**	**49.8%**	**27.7%**	**4.0%**
Switzerland	**10.0%**	**34.1%**	**52.1%**	**3.8%**
United Kingdom	**13.6%**	**32.7%**	**47.1%**	**6.6%**

Figure 11

Average age by role

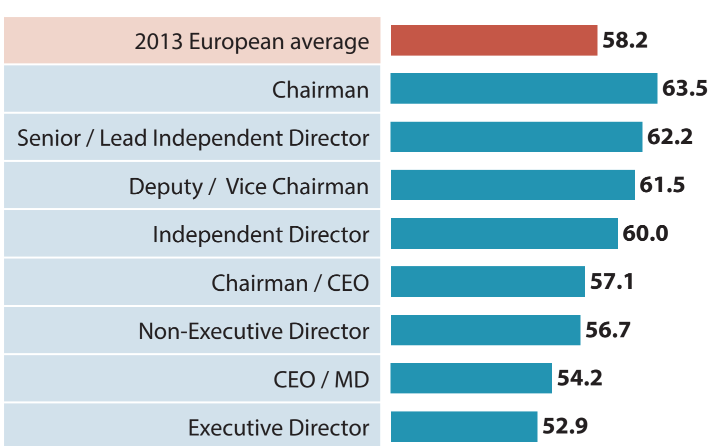


Figure 12

Proportion of the board with previous CEO employment experience (%)

Excluding current CEO

* in Germany, Boards include members of Workers Councils

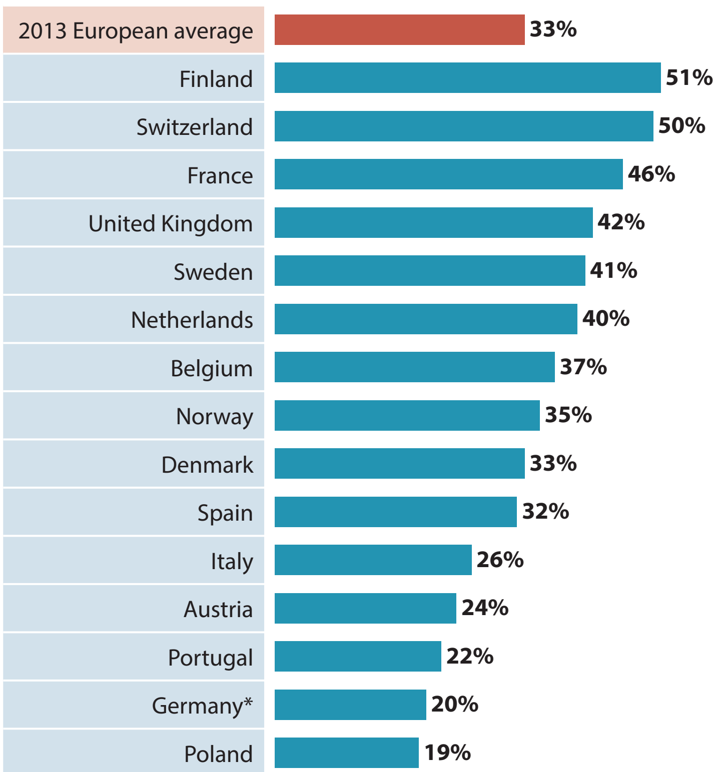


Figure 13

Profile of senior board members

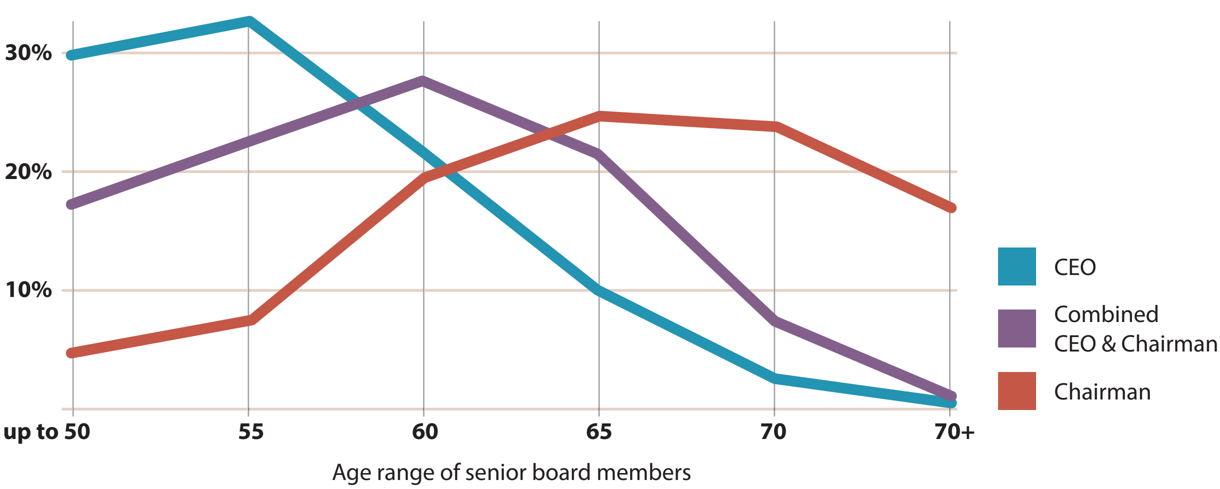


Figure 14

Role of board members aged over 60 with previous CEO employment experience

64% Independent Board Member / Director or Non-Executive Director

18% Chairman

9% Deputy / Vice Chairman

5% Executive Director

4% Chairman / CEO

Figure 15

Proportion of directors holding 3 or more NED roles in public companies (%)

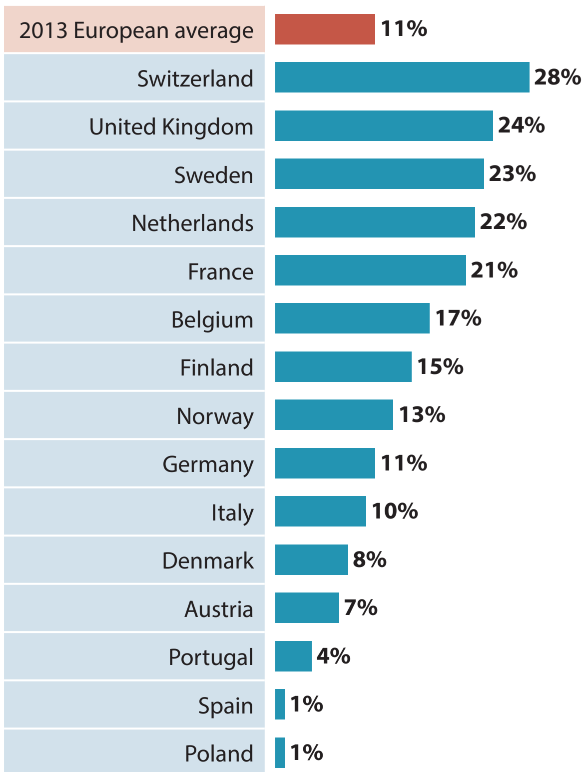


Figure 16

Average number of years on the board

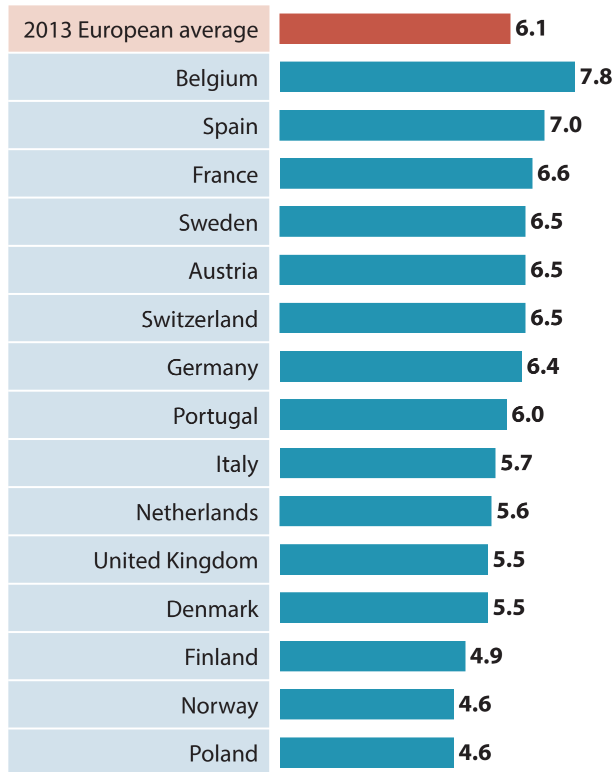


Figure 17

Average years on the board 2009 vs. 2013

* excluding Norway and Poland (not collected prior to 2011)

	2009	**2013**	*Change %*
European average	5.5*	6.1	11% ▲
Italy	4.2	5.7	36% ▲
United Kingdom	4.2	5.5	31% ▲
Netherlands	4.3	5.6	30% ▲
Portugal	4.8	6.0	25% ▲
Belgium	6.7	7.8	16% ▲
Spain	6.1	7.0	15% ▲
Germany	5.7	6.4	12% ▲
Austria	5.8	6.5	12% ▲
Switzerland	6.2	6.5	5% ▲
France	6.8	6.6	-3% ▼
Sweden	6.7	6.5	-3% ▼
Finland	5.1	4.9	-4% ▼
Denmark	6.8	5.5	-19% ▼
Norway*	*n/a*	4.6	*n/a*
Poland*	*n/a*	4.6	*n/a*

Figure 18

Average number of years on the board

Figure 19

Gender quotas or targets 2013

Quotas reported where data available

	Quota / Target	*Expected date*	**Current**
France	**40%**	**2017**	**25%**
Norway	**40%**	**2008**	**39%**
Spain	**40%**	**2015**	**13%**
Belgium	**33%**	**2017**	**15%**
Netherlands	**30%**	**2015**	**19%**
United Kingdom	**25%**	**2015**	**18%**
Italy	**20%**	**2013**	**11%**

Figure 20

Proportion of women directors on the board

* in Germany, Boards include members of Workers Councils

	*% of women directors **represented** on the board* 2011	**2013**		*% of boards **with no** women directors on the board* 2011	**2013**	
European average	12%	17%	▲	25%	12%	▼
Austria	8%	10%	▲	50%	20%	▼
Belgium	8%	15%	▲	35%	15%	▼
Denmark	18%	17%	▼	0%	10%	▲
Finland	25%	27%	▲	4%	0%	▼
France	11%	25%	▲	10%	3%	▼
Germany*	13%	16%	▲	10%	7%	▼
Italy	3%	11%	▲	70%	20%	▼
Netherlands	15%	19%	▲	24%	4%	▼
Norway	33%	39%	▲	10%	0%	▼
Poland	8%	8%	■	47%	40%	▼
Portugal	4%	8%	▲	55%	30%	▼
Spain	9%	13%	▲	26%	14%	▼
Sweden	29%	27%	▼	4%	0%	▼
Switzerland	11%	14%	▲	15%	15%	■
United Kingdom	12%	18%	▲	14%	6%	▼

Figure 21

Current role by gender

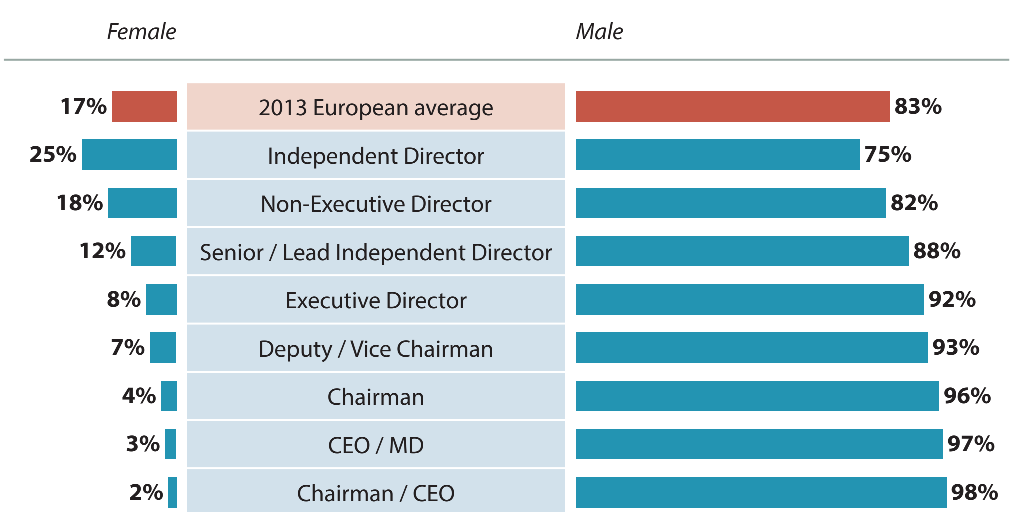


Figure 22

Proportion of non-national directors on the board

* excluding Norway and Poland

23%	24%	**30%**
2009*	2011 ▲	**2013 ▲**

Figure 23

Country and region of origin of non-national directors

	2011	**2013**	
North America	**23%**	**24%**	▲
France	**13%**	**10%**	▼
Northern Europe	**11%**	**10%**	▼
United Kingdom	**10%**	**10%**	■
Benelux	**7%**	**9%**	▲
Germany	**9%**	**8%**	▼
Central & Eastern Europe	**4%**	**8%**	▲
Asia Pacific	**6%**	**6%**	■
Italy	**4%**	**4%**	■
Spain & Portugal	**3%**	**4%**	▲
Latin & South America	**3%**	**3%**	■
Middle East & Africa	**3%**	**3%**	■
other European countries	***4%***	***1%***	▼

BOARD EVALUATION
HOW IS THE BOARD PERFORMING?

In 2011 we recommended the best practice of regular qualitative reviews of board composition, performance, behaviour and cultural and team dynamics. The 2014 benchmark assesses how widely that practice has been adopted.

Frequency of board evaluation

Around 78% of boards have undergone some form of evaluation since our 2011 benchmark.

On average, 70% of boards undertake a formal review annually – this figure is higher in the United Kingdom (100% undergoing an evaluation on an annual basis), Sweden (87%) and Finland (81%).

One in six boards across the region report that they currently do not undergo any type of performance evaluation.

Responsibility for evaluation

Evaluating the board is more likely to be the responsibility of the Chairman (41%) and/or other board members (33%).

Evaluating the Chairman is more likely to be the responsibility of other board members (53%).

Evaluating the CEO is more likely to be the responsibility of the Chairman (30%) and/or other board members (52%).

External evaluation

21% of boards that conduct annual evaluations use external facilitators or consultants.

A third of boards never use external consultants.

Evaluation methods

Methods vary:
78% of boards use questionnaires
65% use open discussions
54% use one-to-one interviews of directors

Figure 24

How often does the board undergo a performance evaluation? (%)

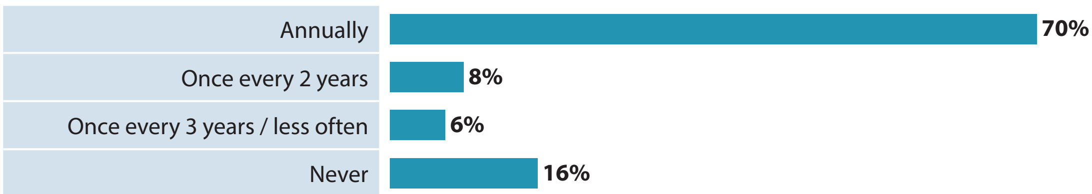


Figure 25

Proportion of boards evaluated within the last 2 years

* excluding Norway and Poland

75% 2009*

75% 2011 ■

78% **2013 ▲**

Figure 26

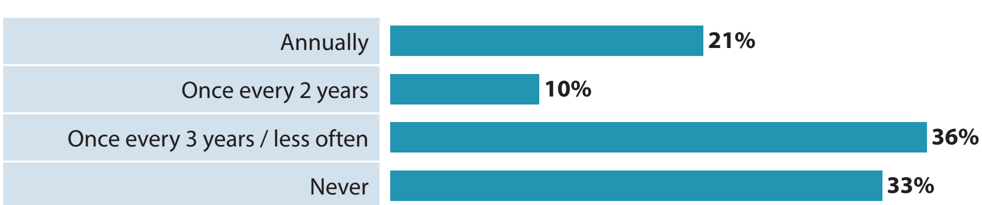
Whose responsibility is it to evaluate? a) the board, b) the chairman, c) the CEO?

Percentages in each column may add up to over 100% due to multiple response

	Board	*Chairman*	*CEO*
The chairman	**41%**	**4%**	**30%**
A committee	**13%**	**12%**	**18%**
Senior / Lead independent director	**4%**	**14%**	**3%**
Board members	**33%**	**53%**	**52%**
External consultant / facilitator	**17%**	**11%**	**5%**
other	**4%**	**5%**	**5%**
No one / not applicable	**5%**	**11%**	**6%**

Figure 27

How often does the board use external consultants / facilitators? (%)



BOARD EFFECTIVENESS SURVEY 2014

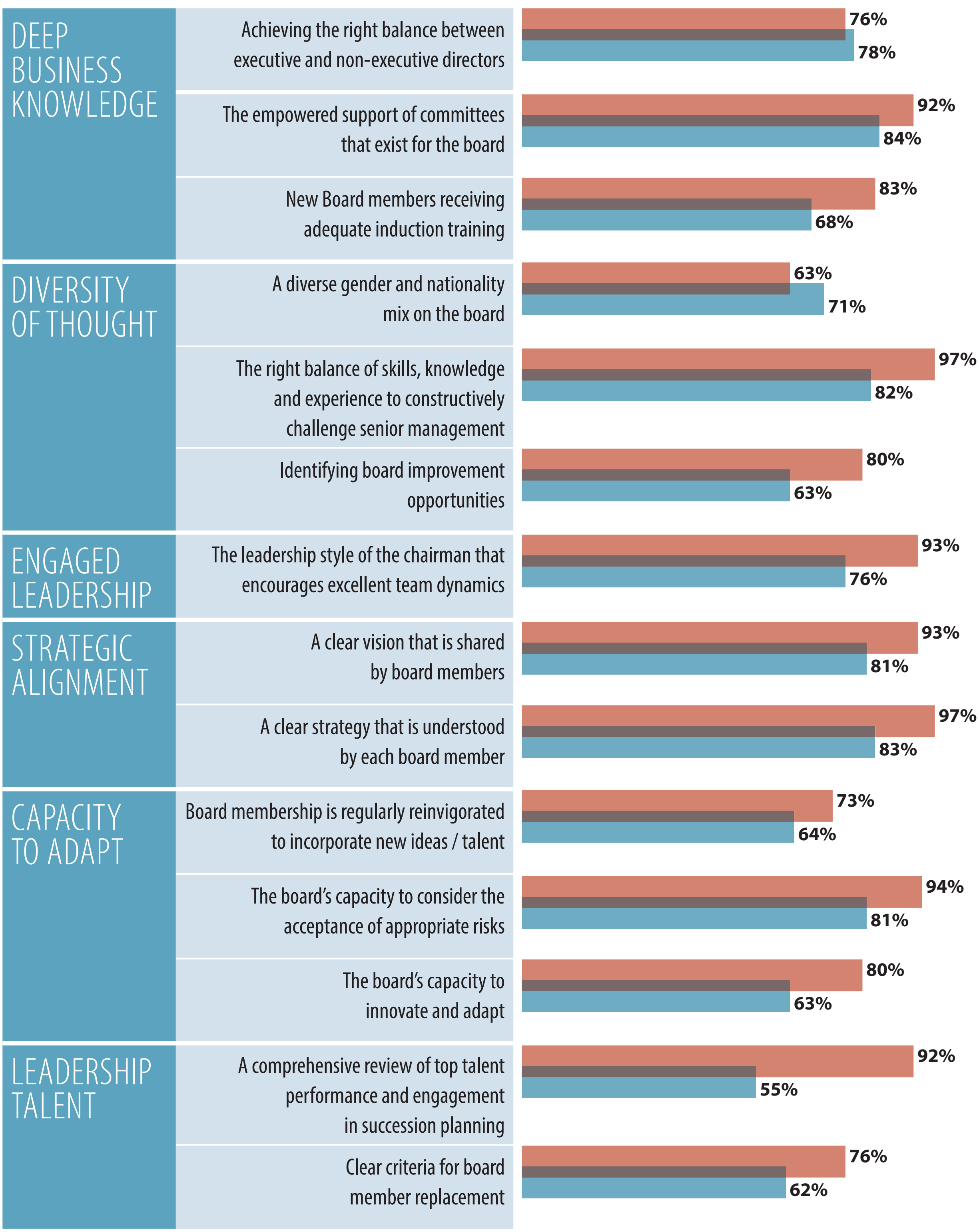
In this latest edition of the report we have supplemented our benchmark data from the top 400 companies in Europe with additional quantitative data collected by surveying key players in the boardroom and corporate governance space. We wanted to understand, directly from board members, what it takes to create and sustain an effective board. Using the dynamic governance framework we asked respondents to rate a series of practices in terms of the importance of their contribution to effectiveness and how well respondents thought their own board was performing against the six key elements.

- **Deep business knowledge**
- **Diversity of thought**
- **Engaged leadership**
- **Strategic alignment and execution**
- **Capacity to adapt**
- **Leadership talent**

Figure 28

Board effectiveness

Importance Satisfaction



BOARD EFFECTIVENESS **HIGHLIGHTS**

Our respondents demonstrated overwhelming support for the importance of compliance with corporate governance codes and, encouragingly, the majority felt that their performance was satisfactory in this respect. However, across the key features of board effectiveness we found significant performance gaps and differing viewpoints from the key officers of the board.

Deep business knowledge

Three-quarters of respondents felt they have the right balance of executive/non-executive representation to support the business.

Over 80% felt their committees were empowered to supply the right degree of scrutiny and review.

The majority of respondents (83%) felt induction training for new directors was important, but only 68% were satisfied with the induction processes of their board.

Diversity of thought

Feedback on gender and nationality diversity is directionally positive with 71% of directors satisfied with their board's performance.

Having the right balance of skills, knowledge and experience to constructively challenge senior management is seen by 97% as important but only 82% rated their own board performance as satisfactory.

Engaged leadership

A leadership style that encourages excellent team dynamics is seen as important to 93% of directors, yet only three-quarters (76%) felt performance was satisfactory in this area.

CEO and executive directors saw a significant gap between importance (4.58 / 4.69 out of 5) and performance (3.92 / 3.78), when describing the effectiveness of chairman leadership style.

Strategic alignment

Clear vision and strategy understood by all are two elements identified as important by 93% and 97% of directors respectively.

The same directors rate satisfaction with performance in these areas at 81% and 83% respectively.

Capacity to adapt

Boards think they can do more to incorporate new ideas and talent with only 64% of respondents satisfied with performance.

80% of respondents agreed with us that innovation and adaptability are important, only 63% of them felt performance was satisfactory.

Chairman and CEO share the same view on the importance of innovation 4.18 and 4.17 respectively, but their perspective on performance is significantly different 4.00 compared to 3.42.

Leadership talent

Top talent reviews and succession is universally seen as important (92%), but only just over half (55%) of directors are satisfied with their board's response.

Performance on creating clear criteria for board member replacement only achieves a 62% satisfaction rating but over three-quarters rated it as important.

General compliance

Figure 29

"Compliance with corporate governance codes"

Importance		*Performance*	
Not important	**2%**	Not satisfactory	**2%**
Somewhat important	**9%**	Neither	**7%**
Important	**89%**	Satisfactory	**91%**
Not applicable / no response	**0%**	Not applicable / no response	**0%**

Figure 30

"A formal board evaluation process"

Importance		*Performance*	
Not important	**1%**	Not satisfactory	**12%**
Somewhat important	**21%**	Neither	**16%**
Important	**78%**	Satisfactory	**67%**
Not applicable / no response	**0%**	Not applicable / no response	**5%**

averages based on a 5-point scale	*Importance average*	*Performance average*
2013 European average	**4.01**	**3.79**
Chairman	**3.94**	**4.08**
CEO / MD	**4.38**	**3.91**
Executive Director	**4.03**	**3.53**
Non-Executive Director	**3.98**	**3.86**
Independent Director	**4.00**	**3.35**

Deep business knowledge

Executive vs. non-executive directors

Figure 31

"Achieving the right balance between executive and non-executive directors"

Importance		Performance	
Not important	4%	Not satisfactory	5%
Somewhat important	10%	Neither	5%
Important	76%	Satisfactory	78%
Not applicable / no response	10%	Not applicable / no response	12%

averages based on a 5-point scale	*Importance average*	*Performance average*
2013 European average	4.32	4.36
Chairman	4.20	4.59
CEO / MD	4.50	4.00
Executive Director	4.19	4.00
Non-Executive Director	4.38	4.54
Independent Director	4.52	4.17

Board committees

Figure 32

"The empowered support of committees that exist for the board"

Importance		Performance	
Not important	1%	Not satisfactory	3%
Somewhat important	6%	Neither	6%
Important	92%	Satisfactory	84%
Not applicable / no response	1%	Not applicable / no response	7%

averages based on a 5-point scale	*Importance average*	*Performance average*
2013 European average	4.47	4.36
Chairman	4.42	4.50
CEO / MD	4.38	3.90
Executive Director	4.42	4.30
Non-Executive Director	4.47	4.49
Independent Director	4.67	4.04

Board development and improvement

Figure 33

"New board members receiving adequate induction training"

Importance		*Performance*	
Not important	**2%**	Not satisfactory	**8%**
Somewhat important	**11%**	Neither	**18%**
Important	**83%**	Satisfactory	**68%**
Not applicable / no response	**4%**	Not applicable / no response	**6%**

averages based on a 5-point scale	*Importance average*	*Performance average*
2013 European average	**4.22**	**3.97**
Chairman	**4.41**	**4.35**
CEO / MD	**4.17**	**3.27**
Executive Director	**3.87**	**3.57**
Non-Executive Director	**4.34**	**4.13**
Independent Director	**4.12**	**3.88**

Diversity of thought – Board balance: diversity

Figure 34

"A diverse gender and nationality mix on the board"

Importance		*Performance*	
Not important	**11%**	Not satisfactory	**11%**
Somewhat important	**25%**	Neither	**16%**
Important	**63%**	Satisfactory	**71%**
Not applicable / no response	**1%**	Not applicable / no response	**2%**

averages based on a 5-point scale	*Importance average*	*Performance average*
2013 European average	**3.79**	**3.87**
Chairman	**3.71**	**4.13**
CEO / MD	**4.08**	**2.69**
Executive Director	**3.48**	**3.52**
Non-Executive Director	**4.04**	**4.17**
Independent Director	**3.67**	**3.78**

Balance of skills,knowledge and experience

Figure 35

“The right balance of skills, knowledge and experience to constructively challenge senior management”

Importance		*Performance*	
Not important	**0%**	Not satisfactory	**4%**
Somewhat important	**0%**	Neither	**11%**
Important	**97%**	Satisfactory	**82%**
Not applicable / no response	**3%**	Not applicable / no response	**3%**

averages based on a 5-point scale	*Importance average*	*Performance average*
2013 European average	**4.87**	**4.27**
Chairman	**4.89**	**4.49**
CEO / MD	**4.92**	**3.92**
Executive Director	**4.84**	**3.94**
Non-Executive Director	**4.83**	**4.41**
Independent Director	**4.87**	**4.08**

Figure 36

“Identifying board improvement opportunities”

Importance		*Performance*	
Not important	**3%**	Not satisfactory	**7%**
Somewhat important	**15%**	Neither	**25%**
Important	**80%**	Satisfactory	**63%**
Not applicable / no response	**2%**	Not applicable / no response	**5%**

averages based on a 5-point scale	*Importance average*	*Performance average*
2013 European average	**4.01**	**3.72**
Chairman	**4.07**	**4.09**
CEO / MD	**4.08**	**3.42**
Executive Director	**4.09**	**3.25**
Non-Executive Director	**3.91**	**3.78**
Independent Director	**3.96**	**3.59**

Engaged leadership – Board engagement

Figure 37

"The leadership style of the chairman that encourages excellent team dynamics"

Importance		*Performance*	
Not important	0%	Not satisfactory	6%
Somewhat important	4%	Neither	12%
Important	93%	Satisfactory	76%
Not applicable / no response	3%	Not applicable / no response	6%

averages based on a 5-point scale	*Importance average*	*Performance average*
2013 European average	4.64	4.19
Chairman	4.52	4.48
CEO / MD	4.58	3.92
Executive Director	4.69	3.78
Non-Executive Director	4.77	4.30
Independent Director	4.57	4.04

Strategic alignment – Vision

Figure 38

"A clear vision that is shared by board members"

Importance		*Performance*	
Not important	1%	Not satisfactory	4%
Somewhat important	3%	Neither	11%
Important	93%	Satisfactory	81%
Not applicable / no response	3%	Not applicable / no response	4%

averages based on a 5-point scale	*Importance average*	*Performance average*
2013 European average	4.67	4.18
Chairman	4.70	4.39
CEO / MD	4.92	4.08
Executive Director	4.72	3.91
Non-Executive Director	4.68	4.30
Independent Director	4.39	3.87

Strategy

Figure 39

"A clear strategy that is understood by each board member"

Importance		*Performance*	
Not important	**0%**	Not satisfactory	**3%**
Somewhat important	**0%**	Neither	**10%**
Important	**97%**	Satisfactory	**83%**
Not applicable / no response	**3%**	Not applicable / no response	**4%**

averages based on a 5-point scale	*Importance average*	*Performance average*
2013 European average	**4.88**	**4.26**
Chairman	**4.91**	**4.48**
CEO / MD	**4.92**	**4.00**
Executive Director	**4.91**	**4.19**
Non-Executive Director	**4.85**	**4.28**
Independent Director	**4.78**	**3.96**

Capacity to adapt – New ideas

Figure 40

"Board membership is regularly reinvigorated to incorporate new ideas / talent"

Importance		*Performance*	
Not important	**2%**	Not satisfactory	**10%**
Somewhat important	**22%**	Neither	**20%**
Important	**73%**	Satisfactory	**64%**
Not applicable / no response	**3%**	Not applicable / no response	**6%**

averages based on a 5-point scale	*Importance average*	*Performance average*
2013 European average	**3.94**	**3.74**
Chairman	**3.96**	**3.96**
CEO / MD	**3.83**	**3.33**
Executive Director	**4.03**	**3.37**
Non-Executive Director	**3.89**	**3.83**
Independent Director	**3.87**	**3.68**

Capacity to take risks, innovate and adapt

Figure 41

"The board's capacity to consider the acceptance of appropriate risks"

Importance		*Performance*	
Not important	**0%**	Not satisfactory	**4%**
Somewhat important	**1%**	Neither	**10%**
Important	**94%**	Satisfactory	**81%**
Not applicable / no response	**5%**	Not applicable / no response	**5%**

averages based on a 5-point scale	*Importance average*	*Performance average*
2013 European average	**4.59**	**4.14**
Chairman	**4.58**	**4.43**
CEO / MD	**4.83**	**3.92**
Executive Director	**4.41**	**4.00**
Non-Executive Director	**4.63**	**4.27**
Independent Director	**4.61**	**3.57**

Figure 42

"The board's capacity to innovate and adapt"

Importance		*Performance*	
Not important	**2%**	Not satisfactory	**6%**
Somewhat important	**14%**	Neither	**25%**
Important	**80%**	Satisfactory	**63%**
Not applicable / no response	**4%**	Not applicable / no response	**6%**

averages based on a 5-point scale	*Importance average*	*Performance average*
2013 European average	**4.09**	**3.74**
Chairman	**4.18**	**4.00**
CEO / MD	**4.17**	**3.42**
Executive Director	**4.22**	**3.50**
Non-Executive Director	**3.94**	**3.83**
Independent Director	**4.04**	**3.45**

Leadership talent – Talent and Succession

Figure 43

"A comprehensive review of top talent performance and engagement in succession planning"

Importance		*Performance*	
Not important	1%	Not satisfactory	16%
Somewhat important	7%	Neither	26%
Important	92%	Satisfactory	55%
Not applicable / no response	0%	Not applicable / no response	3%

averages based on a 5-point scale	*Importance average*	*Performance average*
2013 European average	4.56	3.53
Chairman	4.71	3.81
CEO / MD	4.85	3.15
Executive Director	4.27	3.41
Non-Executive Director	4.64	3.69
Independent Director	4.29	2.91

Figure 44

"Clear criteria for board member replacement"

Importance		*Performance*	
Not important	1%	Not satisfactory	13%
Somewhat important	18%	Neither	17%
Important	76%	Satisfactory	62%
Not applicable / no response	5%	Not applicable / no response	8%

averages based on a 5-point scale	*Importance average*	*Performance average*
2013 European average	4.03	3.78
Chairman	4.21	4.09
CEO / MD	3.67	3.00
Executive Director	4.10	3.58
Non-Executive Director	3.98	3.91
Independent Director	3.91	3.52

METHODOLOGY

In order to generate this report we undertook various data collection methods between April and June 2013 and supplemented this data with interviews and reviews in the summer and autumn of 2013.

Report inputs

We used three sources of input to help us understand the current corporate governance landscape.

Data analysis

In previous reports data has been gathered through annual company reports, with the assistance of each of the researchers from fifteen countries. On this occasion, to facilitate the process – and to be consistent – we used data collected by BoardEx – which also uses company annual reports to populate its database. In total we collected data from the top 400 publicly listed companies across the fifteen countries we analysed. BoardEx data is regularly updated and refreshed, presenting a snapshot of current corporate governance activity at one point in time. Where applicable we have used role definitions supplied by BoardEx, this will include their very specific definition of Independent directors.

Board effectiveness survey

To complement the 'hard' data, we developed a survey tool that looked at issues crucial to board performance, We used the six elements of dynamic governance to shape our approach. Through an online survey we gathered opinions of board members across Europe asking them to assess how important they felt issues were and how well they thought their board was performing on these issues. The board evaluation process was also measured. In total 236 senior board members across Europe completed the survey.

Observations from local experts

On completion of the data collection, the findings were shared with the Heidrick & Struggles European Board Practice partners, who applied their local knowledge and expertise to assess, revise and validate the findings, identifying any gaps, and adding some explanation or reasoning behind the thinking / outcomes. We also shared our findings with a number of business and academic partners to gain their views and input.

Company and data samples

In total, data for 15 countries has been collected from the top 400 publicly listed companies on stock exchanges within each of the countries. In total 236 Senior Board members responded to our online survey.

Austria	ATX - 20
Belgium	BEL - 20
Denmark	C - 20
Finland	OMX Helsinki - 20
France	CAC – 40
Germany	DAX – 30
Italy	MIB – 40
Netherlands	AEX – 25
Norway	OBX – 20
Poland	WSE – 20
Portugal	PSI – 20
Spain	IBEX – 35
Sweden	OMX Stockholm – 20
Switzerland	SMI – 20
United Kingdom	FTSE – 50

Board structures

The authors recognise that there are a number of systems relating to board structures across Europe (e.g. unitary or two-tier systems). Where this was felt to have a potential impact, a footnote is provided at the bottom of each table clarifying the data measurement.

THE EUROPEAN BOARD AND CEO PRACTICE

Helping the World be better led

The Heidrick & Struggles' brand and our Chief Executive Officer and Board of Directors Practice have been built on our ability to execute on top-level assignments and counsel CEOs and board members on the complex issues directly impacting their businesses.

We pride ourselves on being our clients' most trusted advisor, and offer an integrated suite of services to help manage these challenges and their leadership assets from the acquisition of talent through executive search to providing counsel in areas that include succession planning, executive and board assessment, board effectiveness reviews.

The role of CEO is increasingly looked upon with greater scrutiny by the public and regulators. Corporate governance reforms have also raised the bar of corporate board performance while also increasing the challenge of recruiting the best leaders for non-executive director positions.

Our Chief Executive Officer and Board of Directors Practice leverages our most accomplished search and leadership consulting professionals in principal cities around the world who understand the ever-transforming nature of leadership. Many of our experts are located in the key cities with the world's most import stock exchanges such as New York, London, Hong Kong, Frankfurt, Singapore, Tokyo and Shanghai. This expertise, combined with in depth industry, sector and regional knowledge, differentiated research capabilities and intellectual capital, enables us to provide sound global coverage for our clients.

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