

European Diversity Quotas

Environmental, Social and Governance (ESG) Research



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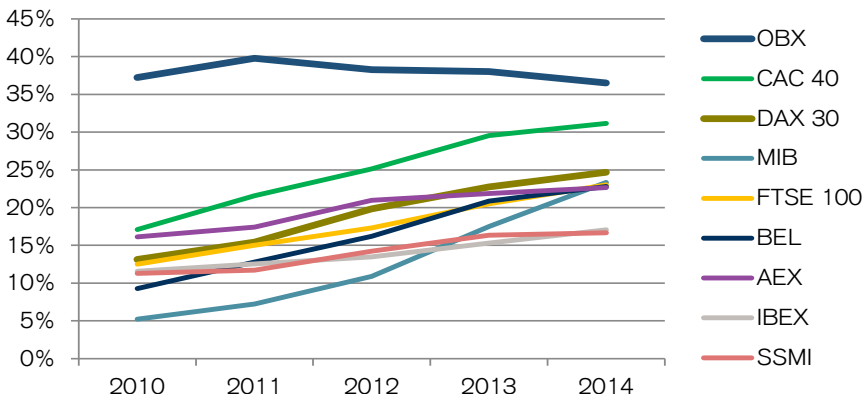
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We need another 400 women directors

- In this report, we review YE14 diversity levels for European benchmark indices and find that a further 400 women directors are needed to meet quotas. Companies are missing the business case opportunities examined in our report [CS Gender 3000: Women in Senior Management](#) that demonstrated higher ROEs and stock market outperformance where there are more women on the board and in management.
- We see diversity continuing to improve, but the pace of improvement has slowed. At current rates, France will miss its 2017 deadline.
- Within the key European indices, 95 female directors were added in 2014 and now total 1085. Male directors decreased by 142 to 3426 meaning some of the improvement in diversity is being achieved by the departure of male directors rather than the appointment of women. That is clearly a negative.
- Spain still has the furthest to go to meet its 40% quota and requires the appointment of 121 women to IBEX boards. This looks unlikely to happen by the original deadline of 1Q2015. Only Red Eléctrica currently meets the quota.
- FTSE 100 companies are closest to their target with women now making up 23% of the boardroom vs the Davies report target of 25%. But there is still yawning gap between Executive Director representation and Non-Executive Director (NED) presence that continues to focus the spotlight on pipeline availability.

Figure 1: Diversity in Europe - % of female directors - main national indices



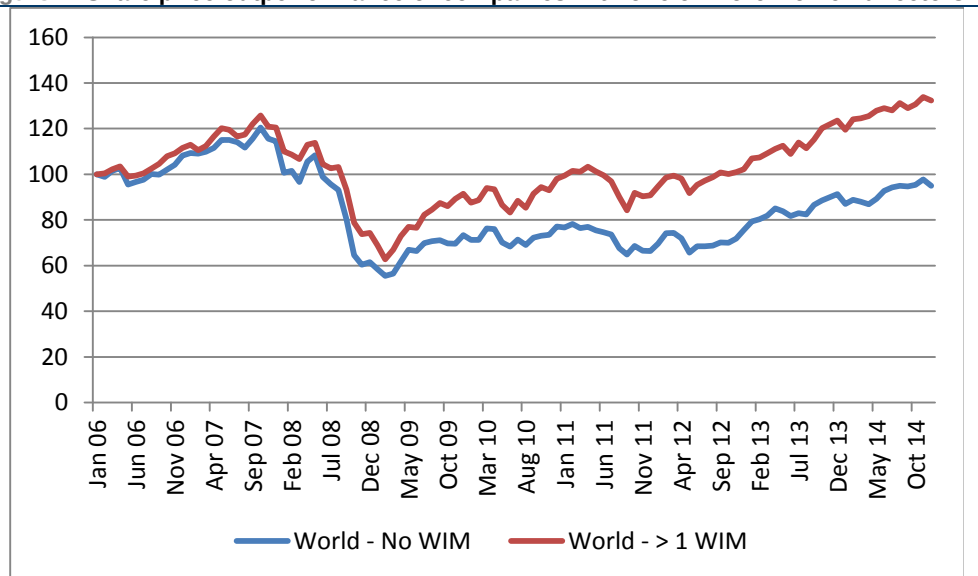
Source: Company data, Credit Suisse estimates

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European benchmark indices are still missing 400 women directors

Europe still needs the appointment of 400 women directors for benchmark stock indices alone to meet national diversity quotas and targets. We have analysed YE14 diversity levels as reported by constituents of the FTSE 100, CAC 40, DAX 30 along with the MIB, IBEX, AEX, BEL and SSMI indices and find that just 80 companies included in these indices currently meet the required quotas and targets. The constituent companies of these indices have more than 4,300 company directors disclosed on their corporate websites, of whom 1,085 are currently women. Just 95 female directors were added in 2014, a sharp deceleration from the 147 added in 2013. It appears that the business and investment cases for diversity that we set out in our recent report the [CS Gender 3000: Women in Senior Management](#) are still not fully understood. Where there is one female in the boardroom, companies have seen an average ROE of 14.1% (sector adjusted) since 2005 compared to 11.2% for all male boards. The nine year average P/B for boards with women directors has been 2.3x vs 1.8x for all male boards. In terms of share price appreciation, companies over \$10bn market capitalisation with one female director have outperformed male only teams by 40% since the start of 2006. This is a compound excess return of 3.8% annually.

Figure 2: Share price outperformance of companies with one or more women directors



Source: Bloomberg, Credit Suisse research

Apart from Holland and Switzerland, each of the countries has a diversity quota or target to be met by 2018, with the UK, Italy and Spain having 2015 deadlines. In each country, the quota or target applies to all listed companies so the actual total number of women to be recruited is significantly higher than the 400 identified at an index level. These quotas are set out in Figure 3. In each country, less than half of the companies in the benchmark index meet their diversity requirements. Compliance at YE14 ran between 3% (Spain) and 37% (UK). There is clearly a long way to go. Despite the looming deadlines for current legislation, the pace of appointments has slowed and at the rate of growth seen in 2014, France, Germany and Belgium would miss their deadlines, albeit marginally in the case of Germany and Belgium. While proponents of quotas sometimes argue that there would be no progress without quotas being adopted, we see evidence of companies dragging their feet even with quotas in place and failing to understand the business case and opportunity of diversity.

Boardroom diversity is coming. The EU has agreed to propose a 40% quota for non-executive positions (NEDs) on boards by 2020 although this still has to be approved by member states. Given the debate around the need for and the benefits of diversity for all stakeholders, we expect it would be politically difficult for countries to dilute or not endorse any EU proposal and therefore expect further improvements in female representation in the boardroom albeit at a relatively slow pace. There are 400 incumbent male directors who may well be reluctant to give up their positions. Whilst Holland and other more recent EU member states would be required to adopt formal quotas under a EU-led initiative, we would expect to see a further incentive for other countries to take a more proactive approach to supporting diversity. In Switzerland, for example, the (female) Justice Minister has called for a 30% quota for the boardroom.

Figure 3: European index diversity

	2010	2011	2012	2013	2014	2010 - 2014 % chg	Quota
OBX Oslo	37.2	39.8	38.3	38	36.5	-1.9	40%
OMX Stockholm	27.6	26.8	26.7	27.9	30.3	9.7	NA
CAC 40	17.1	21.6	25.1	29.5	31.1	82.0	40%
DAX 30	13.1	15.4	19.8	22.7	24.7	88.1	30%
MIB Milan	5.2	7.2	10.9	17.4	23.3	347.1	33%
FTSE 100	12.5	15.0	17.3	20.5	23	84.0	25%
BEL Brussels	9.3	12.8	16.2	20.9	22.8	145.3	33%
AEX Amsterdam	16.1	17.4	21.0	21.9	22.7	40.5	NA
ATX Vienna	8.3	12.1	12.6	15.4	17.7	114.5	NA
IBEX Madrid	11.6	12.6	13.5	15.3	17.1	47.6	40%
SSMI Zurich	11.3	11.7	14.2	16.4	16.7	47.8	NA

Source: Bloomberg, Company data, EU

Overall, we have seen the appointment of 95 new female directors across these indices replacing 142 departing male directors. So whilst companies may be taking advantage of the opportunity to cut board sizes, there is a clear net decrease in the number of directors and support for the criticism that women are still not being allowed an equal opportunity to get to the boardroom. The best country in terms of like-for-like diversity improvement was Italy which saw 30 women replace 29 male directors.

Figure 4: Director net adds in 2014

	Female	Male
FTSE 100	29	-30
DAX	8	-15
CAC	11	-5
MIB	30	-29
IBEX	6	-20
BEL	4	-8
AEX	-1	-11
SSMI	-2	-14
OBX	0	8
OMX	6	-9
ATX	4	-9
Total	95	-142

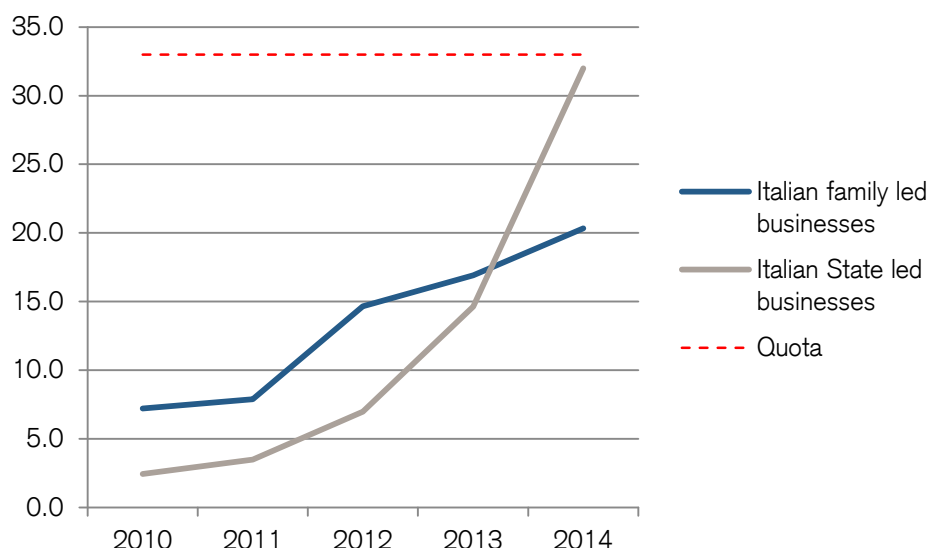
Source: Company data

There has been a fourfold improvement in female participation in the boardroom in Italy since 2010 and diversity levels for the MIB index now stand at 23.3%. This has come about not just because of quotas in our view, nor the low base, but the visible lead on diversity from the new Renzi government and the promotion of women into the Cabinet

and to State-led companies. The number of female directors in Italy jumped from 88 in 2013 to 119 in 2014 driven by such companies as Enel and ENI both of whom went from zero to 3 females on the board, with Telecom Italia seeing a jump from 1 to 5. Nonetheless, Italy has significant ground to catch up in the course of 2015 to meet the target of 33%. Currently only 8 companies comply with the 33% diversity target for YE15 and a further 64 female directors need to be appointed in order for the quota to be met.

We have looked at the sharp increase in Italian female directors in more detail to establish the drivers of the 33% jump seen in 2014. We have compared Italian family led companies, including leading unlisted companies, with the large listed companies in which the State or regional authorities still own a stake. Historically, family-owned companies have had higher levels of female representation, typically family members, but while we are still seeing increasing diversity to just over 20% in 2014, the doubling of the rate of female participation in the State-owned is striking.

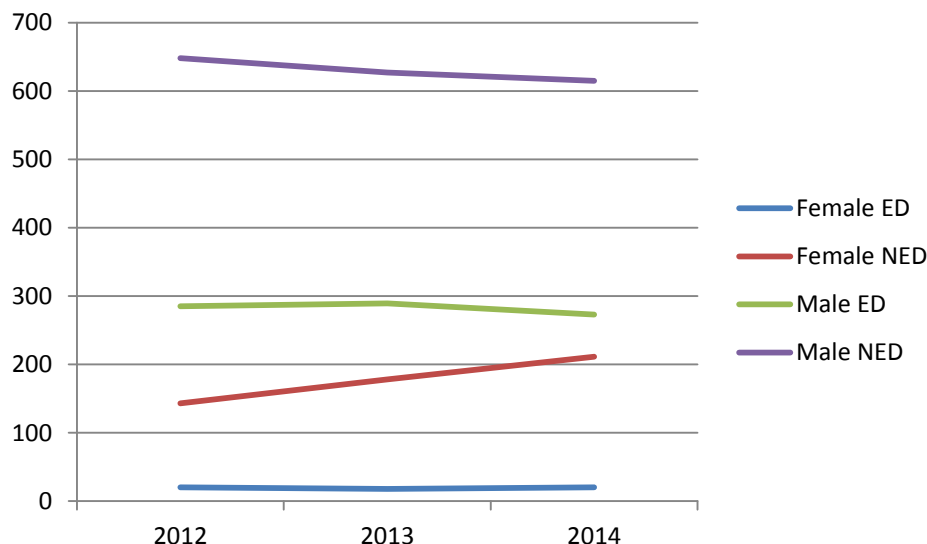
Figure 5: The Renzi government impetus to diversity



Source: Company data, Credit Suisse research

Diversity on FTSE 100 boards is now close to 23% compared to the 25% target recommended by the Davies Report. Only 37 of the 100 companies have reached the target despite the 2015 timeframe and we calculate that a further 83 appointments need to be made over the remainder of this year.¹ Within the 23% average, females now comprise 8.3% of executive directors (EDs) and 28.2% of non-executive directors and one criticism of the 25% target has been that it has led to a switch from male executive directors to female non-executive directors, rather than an increase in female executive directors. This is clearly demonstrated in Figure 6. There are no longer any male only boards in the FTSE100 index with Antofagasta and Glencore appointing female directors in 2014.

¹ Our calculations are based on the assumption that current board sizes are maintained and female directors replace incumbent male directors. If male directors keep their seats, a total of 95 additional female directors need to be appointed for the FTSE to see 25% diversity.

Figure 6: FTSE 100 Board Directors

Source: *The Female FTSE 2014 report*

Within the broader FTSE 250 though, we see a slower drive to diversity. This is disappointing given the business case supported by diversity research including our research [The CS Gender 3000: Women in Senior Management](#) and the outperformance in terms of company and stock market returns discussed earlier in this report. The average female representation on FTSE 250 boards is now 17.7%, with 5% amongst executive directors and 22.5% of non-executive directors²

The UK is an interesting example for the divergence between diversity at the executive director level compared to non-executive directors. It appears to highlight the question of pipeline availability and senior management diversity and France has adopted a more limited approach to diversity quotas by imposing the 40% quotas just for non-executive directors. This is to be met by January 2017 and currently only 16 of the CAC-40 comply. At existing levels, France needs to recruit an additional 42 female NEDS over the coming 2 years compared to the 11 recruited to CAC40 board seats in 2014. We see some evidence of female "portfolio directors" in the NED pool, which highlights one of our concerns about the imposition of quotas, namely the appointment of a limited number of women to multiple positions rather than the promotion of a broad pool. This is a greater risk where quotas are set at as high a level as 40%. If the French quota were to be extended to executive directors too, the overall shortfall would be 68, again assuming a static board size. French quotas also state that difference in number of male non-executive directors compared to female NEDs cannot be greater than 2. Only 18 of the CAC 40 companies meet this requirement at present.

Germany adopted a quota in December 2014 for 30% female representation at the supervisory board (*Aufsichtsrat*) level by 2017. Ten companies currently meet this threshold with an overall gap in female directors totalling 39. However, given the different structure of German boards and the corporate governance system of co-determination, the 30 companies making up the DAX index would need to appoint 49 new female directors to ensure 30% of both shareholder and worker representatives are women. We assume that the 30% quota for shareholder representatives will not impact the election of workers' representatives at the *Aufsichtsrat* (supervisory board) level and vice versa and that both sides of the board will look to have 30% female representation.

YE14 diversity figures for German supervisory boards show 21.6% of shareholder appointed directors are now women and 27.2% of employee representatives. However,

² Profession Boards Forum Boardwatch

whilst 15 companies of the 30 in the DAX index have greater diversity on the employee side of the board, 7 boards show greater diversity on the shareholder side. To meet the 30% quota on both sides of the board, shareholders would have to vote in an additional 27 female directors and employees a further 22 representatives.

Spain has reached a diversity level of 17.1% as of YE14 despite the 40% level originally set for the end of 1Q15. This is the lowest level of diversity amongst the large EU stock markets and bar Holland which started from a higher base, Spain shows the slowest rate of improvement seen since 2010, even while still having the greatest gap to fill. This stalling improvement comes about despite the promotion of women at a political level. Spain alone needs to find 121 new women directors to meet board quotas and only 1 company, Red Electrica, currently complies with legislation.

Figure 7: Breakdown of compliance and directors needed to meet quotas

	No of companies	Diversity (%)	No of companies	No of additional	Deadline
FTSE 100	100	22.8	37	83	2015
DAX	30	24.7	10	49	2017
CAC	40	31.1	16	42	2017
MIB	40	23.3	8	64	2015
IBEX	35	17.1	1	121	2015
BEL	20	22.8	2	34	2017
AEX	25	22.7	6	28	NA
Total	290	NM	80	421	

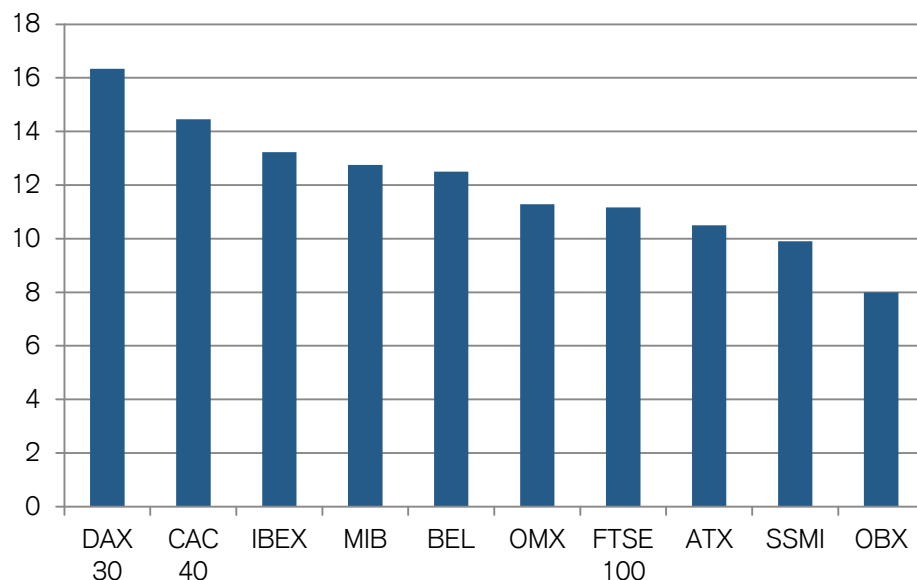
Source: Company data, Credit Suisse research, EU

Belgium has a boardroom quota of at least one third of both sexes by 2017 for listed companies. The deadline for State-owned companies was 2012 and we see the highest level of diversity amongst the listed companies of 46% at Belgacom which is still partly State-owned. Belgium has seen the second highest improvement in diversity at the boardroom level after Italy, jumping almost 150% over the past 4 years to just under 23%. Yet, even with that strong improvement, only 2 companies currently meet the quota and a further 34 female directors need to be recruited.

Holland currently only requires companies to "consider" board diversity and we see the lowest rate of increase since 2010 here. However, this belies the relatively high base of 16.1% in 2010 but Holland has slipped from no 3 in the diversity rankings in 2010 to no 7 today. Only 6 companies meet the 30% diversity threshold, whilst 15 companies hit the 25% level. If Holland were to formalise a target or quota at 25%, they would have to appoint 17 female directors or 28 if they were to match the 30% diversity threshold set in Germany.

In Sweden, there is no formal quota but the Corporate Governance Code of 2004 posits a voluntary goal of parity for all board members of listed companies. Of the 30 companies in the OMX index, only one, Nordea Bank, achieves parity. Overall diversity for the OMX constituents' board directors stands at 30.3% though this ranges from 11% at Sandvik to 55% at H&M.

Average diversity levels on Norwegian boards is below the much cited 40% quota and is currently 36.5%. This is due to the many exceptions to the quota, ie, the quota only relates to shareholder representatives and only to boards of over 10 directors. Only 4 of the 25 companies comprising the OBX have boards with more than 10 members, a further 4 have 10 members. We also see that the average board size of the companies in the OBX is just 8 members, the lowest amongst key European countries. Despite reservations about quotas with so many exceptions, it is clear that the Norwegian example has been successful in getting women to the boardroom generally and only 4 companies in the index have less than 33.3% diversity. One company though, Subsea 7 SA, has no women on the board.

Figure 8: Average board size YE 2014

Source: Company data, Credit Suisse research

Whilst having neither a quota or a target, Switzerland has seen a marginal improvement in diversity during 2014 to 16.7% from 16.4% at YE13. But this average has come about due to the reduction of male directors on boards of the SSMI companies rather than through the promotion of women. Of the directors listed on corporate websites, we in fact see the number of females decrease from 35 to 33 alongside the fall in male directors from 179 to 165 as the average board size fell to below 10. Within the detail, we see female directors being replaced by men, ie. the reversal of diversity, at Richemont and Givaudan.

Within the director pool we have analysed, there are other examples of diversity trends reversing or the addition of a female director being matched by the addition of a male director. However, there is the possibility that this is due to timing issues with the resignation and appointment of directors rather than a reversal in diversity policy at a given corporate, so we would want to analyse more than one data point in a time series to consider this further.

So who still has no female directors?

Within the universe of these European index constituents, we find 19 companies still with no female directors down from 20 at YE13. We also find that 58 companies of the 310 (including ATX Vienna) making up the indices, or 19% by number, have 15% or less female participation.

Figure 9: Number of companies with no female directors

Index	Number	Companies
FTSE 100	0	
DAX	2	Fresenius Group, Fresenius Medical
CAC	0	
MIB	2	Tenaris, Tod's SpA
IBEX	2	Gas Natural Fenosa, Tecnicas Reunida
BEL	0	
AEX	5	Altice, Corio, Fugro, Koninklijke Boskalis Westminster, Oci
SSMI	3	Actelion, Geberit, SGS Surveillance
OBX	1	Subsea 7
OMX	0	
ATX	4	Immofinanz, RHI, Schoeller-Bieckmann, Zumtobel

Source: Company data, Credit Suisse research

Figure 10: Number of companies with 15% female directors or less

Index	Number	Companies
FTSE 100	16	Antofagasta, Ashtead Group, BP, British Land, Coca-Cola HBC, Compass Group, GKN, Glencore, Hargreaves Lansdowne, ITV, Meggitt, Persimmon, Randgold, Schroders, Sky, Standard Chartered
DAX	3	K+S, Thyssen Krupp, VW
CAC	1	Airbus Group
MIB	5	Azimut Holding, Exor, Banca Popolare di Milano, Prysmian, Yoox
IBEX	13	ACS, Amadeus, Bankia, Endesa, Ferrovial, Gemesa, Mapfre, Ohl, Repsol, Banco Sabadell, Sacyr, Telefonica, Mediaset Espana
BEL	5	Ackermans, ABI, Bekaert, Colruyt, KBC, Telenet
AEX	1	Unibail-Rodamco
SSMI	6	AWW, Adecco, Julius Baer, Richemont, Givaudan, Transocean
OBX	0	
OMX	4	ABB, Sandvik, Skanska, Volvo
ATX	4	Lenzing, Telecom Austria, Uniqa, Verbund

Source: Company data, Credit Suisse research

And the best?

There are 38 companies where women make up 40% of the boardroom or more, 13 of which are in Norway. Whilst this is double the number of companies that have no female representation, it is still just 13% of the total number of companies included in the European indices. And 40% is the quota level set for France and Spain. This clearly underlines how far boardrooms have to go to meet current quotas and targets.

Figure 11: Companies with 40% female directors or more

Index	Number	Companies
FTSE 100	4	Admiral Group, Capita, Diageo, InterContinental Hotels
DAX	1	Henckel
CAC	8	Accor, BNP Paribas, Danone, GDF Suez, Legrand, L'Oreal, Publicis, Societe Generale,
MIB	1	Telecom Italia
IBEX	1	Red Eletrica
BEL	1	Belgacom
AEX	1	Koninklijke DSM
SSMI	0	-
OBX	13	Akastor, DNO, Gjensidige Forsikring, Golden Ocean, Marine Harvest, Norwegian Air Shuttle, Orkla, REC Solar, Schibsted, Storebrand, Statoil, TGS-NOPEC, REC Silicon
OMX	6	H&M, Nordea Bank, SE Banken, Securitas, Swedbank, Swedish Match
ATX	2	CA Immobilien, Conwert Immobilien

Source: Company data, Credit Suisse research

Amongst the diversity leaders in Europe, only Publicis and Hennes & Mauritz have more female than male directors.

Companies Mentioned *(Price as of 22-Jan-2015)*

ABB (ABBN.VX, SFr17.04)
ACS (ACS.MC, €31.195)
AVEVA (AVV.L, 1377.0p)
AZIMUT HLDG ORD (AZMT.MI, €19.04)
Accor (ACCP.PA, €40.86)
Ackermans (ACKB.BR, €104.4)
Actelion (ATLN.VX, SFr96.5)
Adecco (ADEN.VX, SFr62.25)
Admiral (ADML.L, 1442.0p)
Airbus Group (AIR.PA, €46.82)
Akastor (AKAS.OL, Nkr18.45)
Altice (ATCE.AS, €65.0)
Amadeus (AMA.MC, €33.51)
Anheuser-Busch InBev (ABI.BR, €102.1)
Antofagasta (ANTO.L, 712.5p)
Ashtead Group (AHT.L, 1075.0p)
BNP Paribas (BNPP.PA, €48.27)
BP (BP.L, 426.0p)
Banca Popolare di Milano (PMII.MI, €0.703)
Banco Sabadell (SABE.MC, €2.39)
Bankia (BKIA.MC, €1.24)
Bekaert (BEKB.BR, €25.895)
Belgacom (BCOM.BR, €31.43)
British Land (BLND.L, 818.5p)
British Sky Broadcasting (SKYB.L, 926.5p)
CA Immo (CAIV.VI, €17.485)
Capita (CPI.L, 1105.0p)
Coca-Cola HBC (CCH.L, 1081.0p)
Colruyt (COLR.BR, €41.655)
Compagnie Financiere Richemont SA (CFR.VX, SFr74.15)
Compass (CPG.L, 1125.0p)
Conwert Immobilien Invest (CONW.VI, €9.963)
Corio (COR.AS, €44.725)
DNO ASA (DNO.OL, Nkr16.2)
Danone (DANO.PA, €56.84)
Diageo (DGE.L, 1933.0p)
ENI (ENI.MI, €14.77)
Endesa (ELE.MC, €16.91)
Enel (ENEL.MI, €3.83)
Exor SpA (EXOR.MI, €34.86)
Ferrovial SA (FER.MC, €17.76)
Fresenius (FREG.F, €48.52)
Fresenius Medi (FMEG.F, €64.38)
Fugro (FUGRc.AS, €16.76)
GDF Suez (GSZ.PA, €18.7)
GKN (GKN.L, 373.4p)
Gamesa (GAM.MC, €8.14)
Gas Natural Fenosa (GAS.MC, €20.11)
Geberit (GEBN.VX, SFr302.5)
Givaudan (GIVN.VX, SFr1607.0)
Gjensidige Forsikring ASA (GJFS.OL, Nkr125.0)
Glencore (GLEN.L, 258.0p)
Golden Ocean (GOGL.OL, Nkr5.61)
Hargreaves Lansdown (HRGV.L, 979.5p)
Henkel (HNKG_p.F, €96.61)
Hennes & Mauritz (HMB.ST, Skr338.4)
ITV (ITV.L, 227.6p)
Intercontinental Hotels (IHG.L, 2648.0p)
Julius Baer (BAER.VX, SFr37.19)
K&S (SDFGn.F, €26.12)
KBC (KBC.BR, €48.36)
Koninklijke DSM NV (DSMN.AS, €44.28)
L'Oreal (OREP.PA, €149.8)
Legrand SA (LEGD.PA, €44.1)
Lenzing (LENV.VI, €56.0)
Mapfre SA (MAP.MC, €2.95)
Marine Harvest (MHG.OL, Nkr107.9)
Mediaset Espana Comunicacion (TL5.MC, €10.7)
Meggitt (MGGT.L, 522.0p)
Nordea (NDA.ST, Skr92.95)
Norwegian Air Shuttle ASA (NWC.OL, Nkr300.0)
OCI Company Ltd (010060.KS, W74,800)
Ohl (OHL.MC, €21.55)
Orkla (ORK.OL, Nkr53.5)
Persimmon (PSN.L, 1506.0p)
Prysmian (PRY.MI, €15.47)
Publicis (PUBP.PA, €64.17)
REC Solar (RECSOL.OL, Nkr102.0)
RHI (RHIV.VI, €19.91)
Randgold Resourc (RRS.L, 5525.0p)
Red Electrica (REE.MC, €74.71)
Renewable Energy (REC.OL, Nkr1.644)

Repsol (REP.MC, €15.68)
Royal Boskalis (BOSN.AS, €41.885)
SEB (SEBa.ST, Skr98.5)
SGS Surveillance (SGSN.VX, SFr1660.0)
Sacyr ES (SCYR.MC, €3.454)
Sandvik (SAND.ST, Skr75.15)
Schibsted (SBST.OL, Nkr492.6)
Schoeller Bleckmann Oilfield Equipment (SBOE.VI, €53.25)
Schroders (SDR.L, 2719.0p)
Securitas (SECUB.ST, Skr95.2)
Skanska AB (SKAb.ST, Skr176.6)
Societe Generale (SOGN.PA, €36.71)
Standard Chartered Plc (STAN.L, 933.7p)
Statoil (STL.OL, Nkr135.0)
Storebrand ASA (STB.OL, Nkr27.15)
Subsea 7 S.A. (SUBC.OL, Nkr67.0)
Swedbank (SWEDa.ST, Skr187.6)
Swedish Match (SWMA.ST, Skr260.0)
TGS-NOPEC Geophysical (TGS.OL, Nkr174.5)
Tecnicas Reunida (TRE.MC, €33.43)
Telecom Italia (TLIT.MI, €0.96)
Telefonica (TEF.MC, €12.48)
Telekom Austria (TELA.VI, €5.8)
Telenet (TNET.BR, €47.0)
Tenaris (TENR.MI, €12.25)
Thyssen Krupp AG (TKAG.F, €21.34)
Tod's Spa (TOD.MI, €82.25)
Transocen (RIGN.VX, SFr13.57)
UNIQA (UNIQ.VI, €7.614)
Unibail Rodamco (UNBP.AS, €235.2)
Verbund (VERB.VI, €15.76)
Volkswagen (VOWG_p.F, €194.05)
Volvo (VOLVb.ST, Skr94.0)
Yoox (YOOX.MI, €18.14)
Zumtobel (ZUMV.VI, €19.14)

Disclosure Appendix

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