

Fresh impetus for greater sustainability in boards

The significance of board composition
in European companies

The presence of women and environmental experts on corporate boards is conducive to more sustainable development

In cooperation with the University of Göttingen, Germany, Egon Zehnder analyzed hundreds of European companies to identify the factors that contribute to the success of corporate sustainability. The consulting firm and the university reached the following conclusions in their study:

- Companies follow more sustainable business practices when women and environmental experts are represented on the board.
- Longer board tenure and a higher average age of board members have a negative impact on sustainability performance.
- The establishment of sustainability committees can be a first step toward anchoring the topic more firmly within the boardroom.

The study

Part of a research partnership between Egon Zehnder and the Chair of Management and Control at the University of Göttingen, this study analyzed data from 534 companies in Europe encompassing around 4,100 data points. Using systematically compiled empirical data that were then subject to several different econometric analyses, it was possible to draw conclusions about factors in the composition of the board* that impact on the environmental and social sustainability of the company. The underlying data was obtained from databases that are widely used in the scientific community (e.g. Thomson Reuters, Datastream, BoardEx) as well as from the companies' annual reports. The volume of data sets and the duration of the study facilitated in-depth analysis and sound, science-based recommendations. The study was conducted by Prof. Dr. Michael Wolff and Katharina Kemmerich of the University of Göttingen. Prof. Dr. Wolff holds the Chair of Management and Control in teaching, research, and practical applications. He and his team focus on various aspects of corporate governance systems. Participating in the research project on the Egon Zehnder side was Dr. Carsten Wundrack, Head of the German Industrial Practice, together with a team.

*The study principally looked at the supervisory board or, in the case of companies with a one-tier system, the non-executive directors.

Conclusions and preliminary recommendations

The study provides empirical evidence of a significant relationship between the composition of the board and the development of corporate sustainability: More women and environmental experts, a younger average age, and shorter tenure on the board have a positive effect. With this focus and through dialog with executive management, the board is particularly well placed to strengthen the company's long-term competitiveness.

The team conducting the study has put forward further hypotheses for discussion:

- Due to their performance in terms of corporate sustainability, the capital market will show a preference for younger and more diverse boards.
- With boards' youngest members averaging almost 50 years in age, companies are losing important perspectives of the "younger generation" with regard to sustainability.
- The increasing average tenure of board members reflects a preference for stability and experience; however, greater board diversity could give new momentum to the issue of sustainability.
- Like financial expertise, proven sustainability expertise should be established on boards — ideally on a sustainability committee set up for this specific purpose.

The findings and hypotheses of the study will be discussed with boards in Europe and explored in greater depth.

Definition of the term "corporate sustainability"

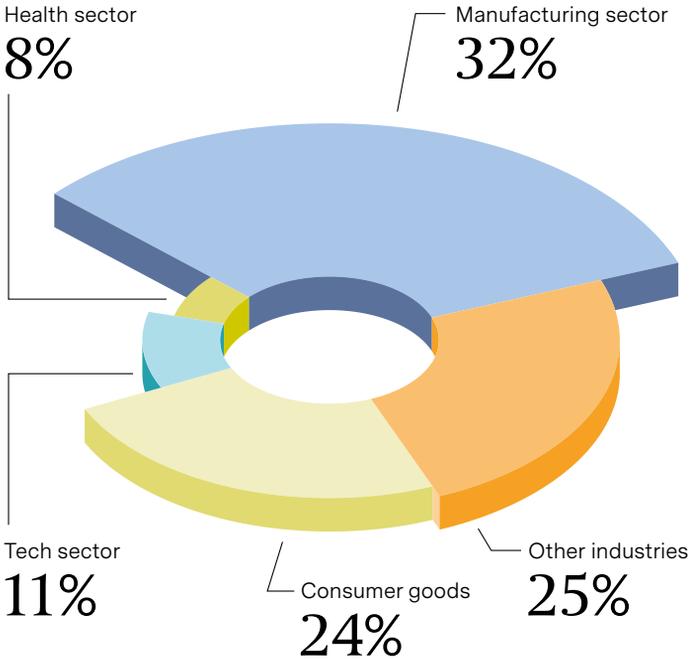
This term describes the extent to which a company's strategy and business practices align with environmental and social criteria ("ES performance")*. According to this concept, long-term commercial success is the result of corporate evolution towards environmental and social sustainability.

***ES Performance = Environmental and Social Performance**

1.

Companies included in the study by sector and region

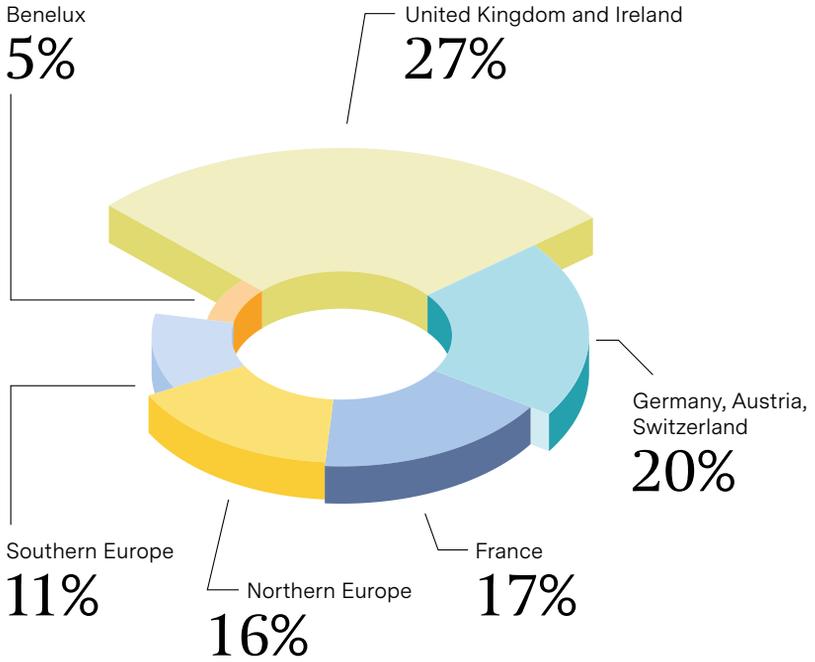
1.1.



The companies were classified using the Fama-French model. Companies in the manufacturing sector made up around a third of the sample studied. This was followed by companies that make consumer goods (24 percent),

technology companies (11 percent), and companies in the health sector (8 percent). Other industries made up 25 percent of the sample. To avoid any discrepancies in the key figures, companies in the financial sector were excluded from the study.

1.2.



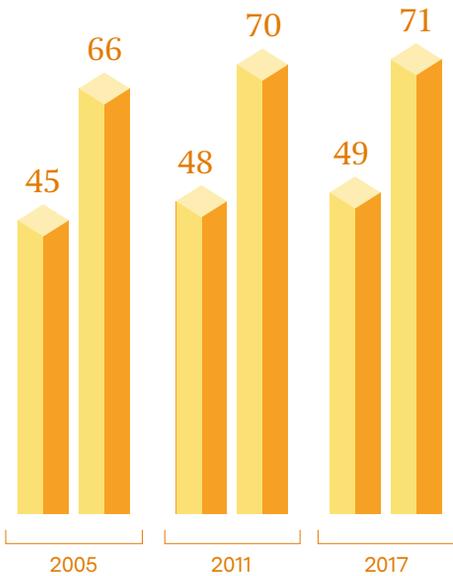
27 percent of the companies studied are headquartered in the United Kingdom or Ireland, 20 percent are based in Germany, Austria or

Switzerland, 17 percent in France, 16 percent in northern Europe, 11 percent in southern Europe, and 5 percent in the Benelux nations.

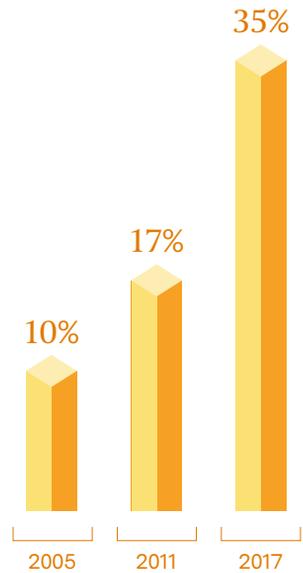
2.

Demographic breakdown of boards

2.1. AVERAGE MINIMUM AND MAXIMUM AGE (IN YEARS)



2.2. PROPORTION OF WOMEN (IN %)

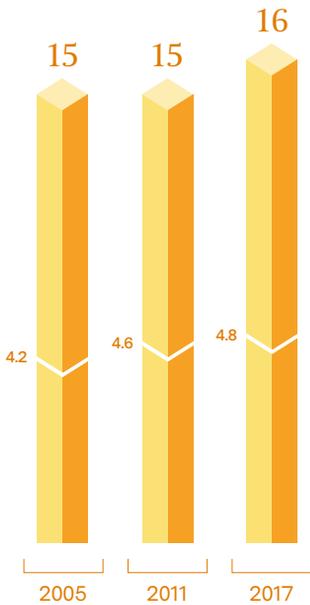


This graphic shows the increase in the average minimum (increase of 4 years) and maximum age (increase of 5 years) of board members.

Over the same period of time, the proportion of women on the boards examined by the study rose from 10 percent (2005) to 17 percent (2011), and then to 35 percent (2017).

2.3.

AVERAGE MAXIMUM BOARD TENURE (IN YEARS)



→ The average years of board tenure were 4.2 (2005), 4.6 (2011), and 4.8 (2017)

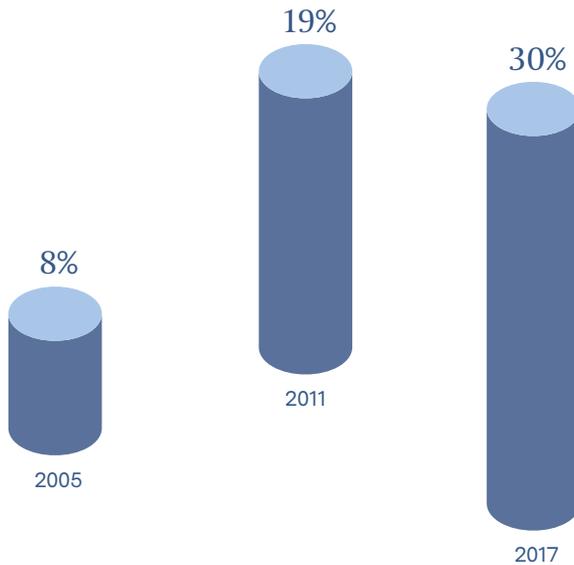
The average maximum period of board tenure remained steady at 15 years between 2005 and 2011, and then rose to 16 years by 2017.

The average tenure of board members rose over the studied period, from 4.2 years (2005) to 4.6 years (2011), and then to 4.8 years (2017).

3.

Sustainability committees are becoming more widespread in European companies

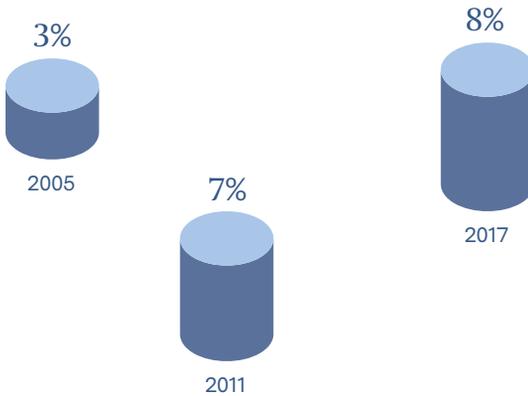
3.1. PROPORTION OF COMPANIES WITH SUSTAINABILITY COMMITTEES (in percent)



From 8 percent in 2005 to 30 percent in 2017, the percentage of companies that have a sustainability committee grew sharply (by a total of 22 percentage points). To date, few German boards have

established such committees. In the same period, the number of sustainability experts on boards grew from 3 percent (2005) to 7 percent (2011), and then to 8 percent (2017).

3.2. PROPORTION OF COMPANIES WITH SUSTAINABILITY EXPERTS ON BOARD (in percent)



The study shows that having sustainability experts on the board has a positive impact on the corporate sustainability. Similar to the concept of financial experts on the

board, consideration should be given to a definition of “sustainability expert” to establish a standard frame of reference.



Impacts on a company's corporate sustainability

CRITERION IMPACT ON COMPANY'S CORPORATE SUSTAINABILITY

Proportion of women

-2.49* 6.00*

Average age

-6.26* 7.24*

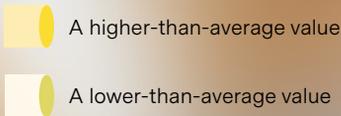
Average tenure

-4.05* 7.90*

Sustainability committee with relevant expertise

-5.66* 13.05*

Companies with the lowest (negative) and highest (positive) values compared to the mean



The study shows a statistically significant relationship between the composition of the board and the evolution of corporate sustainability. Thus, the board composition systematically determines corporate sustainability. The companies with the highest proportion of women on the board have a corporate sustainability performance that is 6 percentage points higher than average within the sample. The same applies to age and board tenure: boards with the youngest members and the shortest board tenure perform better by more than 7 percentage points each. It is also evident that the existence of a sustainability committee with the relevant expertise has a significant impact of more than 13 percentage points on the corporate sustainability of the companies analyzed.

*The analyses are based on multivariate regressions that take additional factors into account. This graph shows the change in corporate sustainability in percentage points. All effects are statistically significant.

About the Chair of Management and Control, University of Göttingen

Under the leadership of Prof. Dr. Michael Wolff, the team from the Chair of Management and Control explores the many aspects of corporate governance systems through teaching, research, and practical applications. The Chair's research activities have an empirical focus and investigate, among other things, the composition of boards and their impact on corporate governance. The Chair is located in the Faculty of Economic Sciences at the University of Göttingen, an internationally renowned research university with a rich tradition. With its 13 faculties, it is home to a diverse spectrum of academic disciplines covering the natural sciences, humanities, social sciences, and medicine.

About Egon Zehnder

Egon Zehnder is the world's preeminent leadership consulting firm, sharing one goal: to help people and organizations transform. We know what great leaders can do and are passionate about delivering the best solutions for our clients. Our services include: leadership development, individual, team and organizational effectiveness, CEO search and succession, executive search and assessment, board advisory, and cultural transformation.