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European Confederation of Directors' Associations



ecoDa Annual Conference 2014

The Board Selection Process: Assembling the Right Pieces for a Dynamic, Effective and Balanced Board – SUMMARY REPORT



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**THE BOARD SELECTION PROCESS:
Assembling the Right Pieces
for a Dynamic, Effective
and Balanced Board**

Boards' diversity has been one of the key topics in Corporate Governance over the last year and might remain high on the agenda until the formal adoption of the gender balance initiative by the Council. If the method chosen to promote gender diversity has been controversial, there was a common recognition that a more diverse board bring a broader range of perspectives, insights, and views in relation to issues affecting the organization.

Beyond diversity as such, what matters most for European boards is getting the right competencies and expertise needed to complement existing skills of the board and improve its value-added.

If the goals to be achieved are clear, best practices are still needed in order to foster the right selection process and to define the right profiles not only in order to fulfil the legal requirements but to respond to the specific needs of the companies. This is why ecoDa (The European Confederation of Directors' Associations) organized its annual conference on the topic of **"the Board Selection Process: Assembling the Right Pieces for a Dynamic, Effective and Balanced Board"** in Brussels on April 29, 2014.

Outcome

Board composition is certainly a crucial condition to reach the goal of good governance and board effectiveness. **The renewal of the board constitutes a cornerstone is a company's life** and shareholders have the duties to select a strong board as well as to monitor the quality of the board work and its performance. As stated by Lutgart Van den Berghe (Chair of ecoDa's Policy Committee, and Executive Director of Guberna), *"everything starts by the selection. You need to build the team"*.

Finding the right mix of skills/experience/diversity to be successful is not an easy task for shareholders and boards. It is like trying to square the circle or to seek ways through different constraints. And in fact, **the internal and external driven forces** that can influence the board' selection process are numerous.

Internal and external driven forces

1. The first determining factor is certainly **the shareholders influence**. Indeed, where they have significant holdings in a company, shareholders expect to be consulted on key appointments (Mike Everett). They can challenge the way that directors are elected. Their role will be even more prominent in companies with controlled share ownership (Lutgart Van den Berghe). In Norway, the CG Code goes even further and specifies that *"the members of the nomination committee should be selected to take into account the interests of shareholders in general. The majority of the committee should be independent of the board of directors and the executive personnel"* (Marianne Johnsen). Dialogue with shareholders [which the draft EC Shareholders' Rights Directive aims at improving (Jeroen Hooijer)] is therefore key to align the interests of directors with those of shareholders. It can happen that two main shareholders are not in agreement regarding the appointment of one board

member, the Nomination Committee has then to deal with this political dimension (Marianne Johnsen). More dialogue and long term engaged shareholders lead to new types of boards.

2. Even if the regulator “*does not want to dictate what types of board listed companies should have*” as said by Jeroen Hooijer (Head of Unit, European Commission), the European institutions have fixed some **legal frameworks** for board’s selection process like:

- EC Proposal on gender equality: a 40% objective of woman in non-executive board-member positions in listed companies (Fianna Jurdant),
- EC Proposal on non-financial reporting: board policy on all diversity aspects such as nationality, age, educational and professional background,
- For the financial sector: the CRDIV requirements and EBA Guidelines on internal governance and on fit & proper (Bernd Rummel).

Those building blocks can make the difference in terms of companies’ efficiency. The legal requirements on board committees determine to a large extent the profiles to attract (Lutgart Van den Berghe). The financial sector is so highly regulated that being able to understand and to follow the evolution of regulations is in itself a criteria to select a board member (Marie-Jeanne Chèvremont).

These legal obligations certainly have a stimulating effect: the quota regulations give a boost in defining board profiles as vacancies for female directors (Lutgart Van den Berghe). GMI Ratings 2013 Woman on Board survey shows that Europe is leading in respect to gender-diverse boards, impacted largely by legislative changes or pressure. In North America, where board diversity is very slowly, advocates have preferred investor pressure and voluntary change over regulation. The report suggests there is even less progress in select Asian and Middle East and North African countries (Fianna Jurdant).

Of course, there is no one-size-fits-all approach, this is why the OECD Principles for instance do not go into details of what companies need but rather highlight overall responsibilities and comments on the board nomination and election process (Fianna Jurdant).

3. A factor that should be on top when defining a vacancy should be the **strategic and business criteria** (Lutgart Van den Berghe). It is important to challenge the assumptions and to think outside the boxes (Krista Walochik). The formal boards stick to rules and regulation (due to pressure coming from analysts, press, stock market, regulators), they focus mainly on compliance. Formal boards provide low visibility, low predictability and high complexity (Torben Ballegard Sorensen). The conditions for creating values consist in rules, practices, but also in leadership, strategic development, innovation capability, and executive drive. This is why interactive boards should try to find people able to plan for tomorrow. More time should be dedicated to the company’s strategy rather than to historical report (Torben Ballegard Sorensen). “*In the end, boards don’t need more rules on how to do things right, they need inspiration on how to do the right things*” as expressed by Torben Ballegard Sorensen. Having a strategic vision should not mean however validating the current strategy. There is a tendency for chief executives chairing the board to look for directors supporting the strategy. On the contrary, board members should raise the right questions and challenge orthodoxies.

In addition, board members should have in-depth knowledge about the sector in which the company operates (Tapani Varjas). However, “*in the financial sector, it is important not to end up with a board experts*” added Marie-Jeanne Chèvremont (Chair of ILA).

4. In order to reach board effectiveness, **board dynamics** have been detected as one of the most important drivers (Lutgart Van den Berghe). As said by Lutgart Van den Berghe, *“you can have good football players but a poor team”*. The key is to develop a mix of personalities and diversity of thinking style as well as a good fit of personal profiles (Torben Ballegard Sorensen). A board should rely on trust, openness, mutual respect, shared vision and shared values. Therefore, it is important to look beyond the CV and to consider the soft skills and the emotional intelligence (EQ) of the candidate, i.e. his/her capacity to listen and to build relationship (Dominic Schofield). The board should look for members able to work towards consensus rather than arrogant and dominant board members. To get a consensus-driven collegial body, it is important to avoid assignment of full power to one individual. The British CG system can serve as example for a better check & balance system [existence of a senior independent director to counter balance the chair + distinction of the Nomination Committee and the Remuneration Committee + distinction between the chair and the CEO](Jean-Claude Guez).

One of the main challenge for Nordic Nomination Committee or external body is to analyze the board dynamics when people are not sitting in a board themselves (Tapani Varjas). Board evaluation can be extremely useful to reflect on how the board functions board (Dominic Schofield).

What lessons can be learnt:

- 1- In terms of defining the right profiles for board members:
 - Companies who manage this well define the ideal make-up of the board in terms of factors including the balance of non-executive to executive directors, the appropriate diversity (including in relation to gender), skills, experience, personality traits and length of tenure of board members (Mike Everett). It is indeed important to define the criteria to go from a long list to a short list and a final selection (Lutgart Van den Berghe).
 - The criteria have to integrate the legal requirements but in the financial sector board members can have their own opinion and should be prepared to argue in front of regulators (Marie-Jeanne Chèvremont).
 - Whenever there is a vacancy, one should not look for a copy of the board member that leaves (Lutgart Van den Berghe).
 - To find the appropriate board member, it is important to look beyond the CV and to take into account the soft skills (Dominic Schofield).
 - Beside quota law, quality should not be compromised (Tapani Varjas).
 - Chairs don't have to be former CEOs. Advisory skills could be useful to lead the board (Dominic Schofield).
 - People with extensive business experience might lose capacities to be an active listener (Torben Ballegard Sorensen).
 - Given the huge number of criteria to respect, companies should not consider the independent directors as “the passe partout” to come to the most optimal mix (Lutgart Van den Berghe).
 - Some key criteria to select a board member could be: right motivation, good understanding of business, common sense, strategic brain, integrity, courage and capacity to fit with the team.

2- In terms of defining the right processes for board selection:

- The respective roles of the chairman, the Nomination Committee, the board of directors and the shareholders have to be clearly defined (Lutgart Van den Berghe).
- The Nomination Committee should be composed of professional people and should dedicate enough time to its tasks (Marianne Johnsen).
- The management of the succession should be a fairly continuous process (Mike Everett).
- The selection process should be embed in a critical evaluation of board composition and its effectiveness (Lutgart Van den Berghe). This should allow companies to identify where they may have deficiencies and to plan how these should be managed (Mike Everett).
- The use of external support should be decided upon for key positions and this may include the use of search firms. Head hunters/search firms can bring independence and professional opinion (Krista Walochik). But it is true that the market is less organised in some countries like France than in the UK (Jean-Claude Guez). The Association of Executive Search Consultants (AESC) has developed specific guidelines (Krista Walochik) for boards' selection process.
- If it is decided to use a search firm, it should receive a clear mandate (Jean-Claude Guez/ Krista Walochik). In other words, *"you have to do the work in advance otherwise the search firm can't help you"* as said by Peter Montagnon.

In conclusion, if a lot can be learnt from the process of recruiting CFOs/CEOs, board members have to evaluate their potential for adding value as for management functions (Lutgart Van den Berghe). In the financial sector, within the fit & proper process, board members have to be ready to defend their case and sell themselves without waiting for the questions of the regulators (Marie-Jeanne Chèvremont).

ecoDa is very thankful to all the speakers, to the two moderators (Turid Elisabeth Solvang and Peter Montagnon) and to the conference moderator (Roger Barker) for their valuable contributions.

The conference was organised in cooperation with the European Women on Board (EWoB) network.



APPENDIX: Conference's programme

(Conference Moderator: Roger Barker, Director of Corporate Governance and Professional Standards, IoD)

14.30: Welcoming speech: Patrick Zurstrassen, ecoDa's past chair

14.40: Introductory remarks:

- **Jeroen Hooijer**, Head of Unit, Corporate Governance, Social Responsibility, European Commission, *"Boards under the EU Scrutiny"*

15.00: Keynote speech:

- **Lutgart Van den Berghe**, Executive Director, Guberna, « *Finding the suitable board members: how to square the circle?* »

15.15: Panel one: "Defining the right profiles for board members":

Moderator: **Turid Elisabeth Solvang**, Managing Director, The Norwegian Institute of Directors

Keynote speech: **Torben Ballegard Sorensen** (President and CEO of Bang & Olufsen A/S (plc) Board Member Electrolux, Pandora and Egmont Publishing)

- **Fianna Jurdant**, Senior Policy Analyst, OECD (perspective: *"Women in boardrooms"*)
- **Dominic Schofield**, Senior Client Partner, Korn Ferry, (perspective: *"Beyond competences, the soft skills"*)
- **Marie-Jeanne Chèvremont**, Chair of the Luxembourg Institute of Directors (ILA), (perspective: *"Specific needs in the financial sector"*)
- **Tapani Varjas**, General Counsel of Solidium Oy (perspective: *"Specific profiles for state-owned enterprises"*)

17.00: Panel two: "Defining the right processes for board selection"

Moderator: **Peter Montagnon**, Associate Director, IBE

Keynote speech: **Jean-Claude Guez**, Advisory Consultant to Senior Management / former NED for 12 Years on UK PLCs Boards

- **Mike Everett**, Head of Risk and Compliance, Standard Life Investments, (perspective: *"Role of shareholders in the nomination process"*)
- **Bernd Rummel**, Principle Policy Expert, European Banking Authority (EBA), (perspective: *"The fit & proper approach in the financial sector"*)
- **Marianne Johnsen**, Chair of the Nomination Committee of different listed companies, (perspective: *"Selection processes in Norway"*)
- **Krista Walochik**, Executive Chairman of Norman Broadbent for Spain and Latin America, Member of the global Board of the AESC (Association of Executive Search Consultants), (perspective: *"AESC Guidelines"*)

18.25: Conclusion: Lars-Erik Forsgårdh, just-elected new ecoDa chair, Chairman of the Swedish Academy of Board Directors.