Board composition and nomination - reflections from a practioner

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Background

Swedish SOE landscape

- 55 SOEs
- 360 non-executive directors
- 85-90 % independent directors

Myself

- Eleven years practice in board recruitment (five years executive search and six years MoE)
- Involved in 400 recruitments over eleven years





- Difference between wholly owned and partly owned SOEs especially listed companies
- In wholly owned SOEs you can "build the board"
- In listed SOEs you can't always optimize board composition
- Every company is different => Every board should be different!
- Smaller boards are more efficient. 5-6 persons might suffice. Swedish ownership police says 6-8.
- When composing a board look at the strategic challenges for the company and the board.





- When analyzing which competences are needed try finding candidates that fit several criteria
- Specialists seldom work very well on boards. You need a broad understanding of business and sometimes also of the surrounding society.
- Think diversity! Diversity could mean different background, sex, ethnicity, life stories. 8 large cap CEO's seldom make a well functioning board.
- Succession. Try always to think about succession. Often it is better to change one director per year than half the board.
- Try avoiding changing the chairman at the same time as the CEO
- Recruiting a good chairman is much more difficult than an ordinary director. Is there someone on the board that is a possible successor?





- Experience. Prior board experience is necessary for at least some of the board members. CEO or CFO background is often good. Depending on the strategic challenges other possible backgrounds may be Head of production, Head of sales in similar businesses. Try also finding international experience. Sometimes people with political backgrounds can be an asset for the board.
- Avoid recruiting management of the company to the board. In Swedish law the CEO cannot be chairman. In Swedish SOEs the CEO is not on the board.
- Minimizing political influence. Less than 5 % of all board members are politicians or ex-politicians.





• The investment directors for each company is a board member and employed by the government offices. Most of them have a management consultancy or investment banking background. From 2010 they don't receive any directors fees.





Board nomination

- Start the board nomination process early -6-8 months prior to the AGM.
- In building a structured, transparent and accountable process a lot of political interference can be avoided. This is especially important when recruiting a chairman.
- Active politicians on the boards can often lead to conflict of interest. Former politicians can actually be an asset.
- Interview all candidates that are nominated
- Two questions are asked to all new board members:
 - Are you comfortable with the state as an owner?
 - Do you have anything in your background that may reflect badly on the state as an owner?





Board nomination

- Always take references. You'd be surprised how many people have bad references.
- Do a background check. Is there anything that may reflect badly on the company and the state?
- Research, research! There are many talented people out there but for a multibillion dollar company you want the best. Sometimes you need a long-list of fifty people.
- If you can't find good enough candidates use external help. Sometimes executive search consultants may be useful.





Board nomination

- Board evaluation. Make sure that the board is evaluated every year. Use external help every now and then.
- Hire and fire! Don't be afraid to fire board directors if they don't deliver.





Board remuneration

- You compete with the market for the most talented people. Try to pay them decently (but not too much!)
- In Sweden directors fees have stood still for several years due to political reasons. It might become a problem in the future. The pay level is less than 50 % of market (comparable listed companies).
- Many candidates might accept a lower level because it is an SOE but in the end you get what you pay for.





Board nomination – principles

- Chairman independent from civil service
- The Chairman has a key function
- Relevant competence to fulfill the strategy of the company
- Board independent from management
- Active ownership with investment director on the board
- Employee representation following the same law as private companies

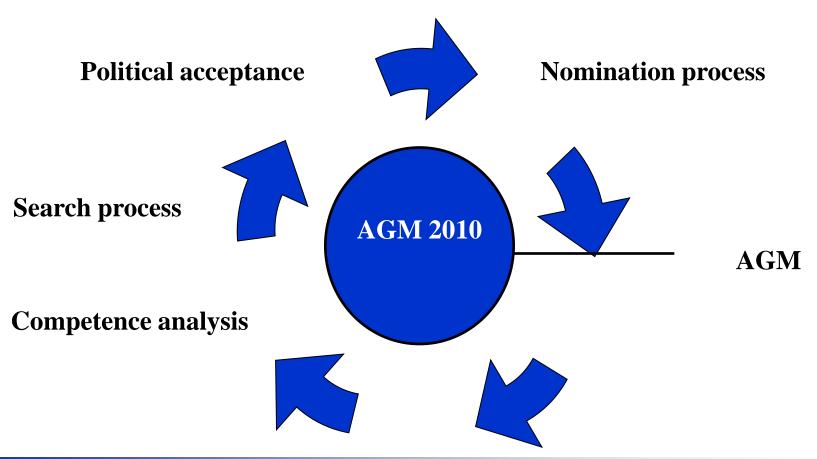


Appendix – extra slides

• Specifics about Swedish SOE board composition and nomination



The board nomination process



Board evaluation internal/external

Board evaluation by owner

Candidate Profile New Chairman

A new chairman should have:

- Experience from board work and the ability to lead the board's work
- Good knowledge of corporate governance issues
- Ability to lead and function as a coach and speaking partner to the CEO
- Understanding of and acceptance for the state as an owner
- Effectively function as a link between the board and management
- Efficiently uphold the dialogue between the board and the owner
- Ability to represent the company
- Time and dedication for the assignment
- Decisive person with integrity



Candidate profile new board member

Basic requirements:

- Very high competence in business, business development, industry, finance or other relevant areas
- High integrity and ability to work for the best of the company
- Capacity to reach independent judgements of the business of the company

Specific requirements:

Depends on the situation of the company



Board composition in Swedish SOEs

- The board should always have the right industrial knowledge or other competences that are relevant for the company even when the company is changing or the corporate environment changes
- The board should have a balance regarding competences, experiences, background, age and sex
- The board should be diverse, both geographically and ethnically
- The boards should have gender equality (at least 40 percent of each sex)
- Gender equality in regard to chairs should increase



Current board compositions in Sweden

- 46 (44) percent women, 54 percent men in all SOEs (compared to listed companies ca 18 percent women)
- 48 (47) percent women, 52 percent men in the wholly owned SOEs
- 33 (27) percent female chairs (compared to listed companies 3 percent)
- Average age women 54 average age men 60
- Average time served on the boards 3,4 years for women and 3,9 years for men
- Average size 7 members/board (recommendation 6-8)



Thank you!

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