

# Beyond The Old Boys' Network

What's happening in  
European boardrooms  
and a guide to best  
practices

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# Executive Summary

Appointing a board director is not what it used to be. Gone are the days of CEOs and chairmen single-handedly planning how to fill their boards with friends, family, and colleagues (and in the rare occasions when that still happens, stakeholders and shareholders will make their discontent be known).

There has been change over the last decade in how the board nominations process works, primarily as a response to new waves of corporate governance guidelines. Regulators and board practitioners across different countries have developed their own governance systems, often “cherry-picking” ideas and best practices from other jurisdictions and calibrating them to local business needs. Countries will opt for a one-tier or a two-tier board; some will make major shareholders members of the nomination committee, while others will ensure that employees get adequate board representation; some governments will establish mandatory gender quotas, while others will opt for fixed voluntary gender goals. Section 1 of this report provides an overview of the broad European corporate governance landscape and it addresses “where we are today.”

Section 2 addresses the question “Where are we heading?” by describing the four forces pounding the boardrooms of Europe’s companies. Market volatility and economic instability, heightened regulatory pressure, the demand and need for diversity (both gender and broader), and growing shareholder activism have forced boards to rethink their nomination practices. It is not surprising that strong pushback, heated discussions, and charges of bad practice have often gone hand in hand with this changed landscape. Section 2 also sets out an anthology of what directors, investors, regulators, academics, and the media are saying about three highly debated topics within governance/board nomination procedures: gender quotas, the role of informal and political networks in board appointments, and shareholders as members of the nomination committee.

In the context of changing regulations, board practitioners will find it useful to refer to a selection of board nomination best practices, which we have collated in Section 3. Although governance codes vary across jurisdictions, we have found both from experience and the results of our research for this paper that best practices transcend different governance jurisdictions. It is this idea that led us to craft Section 3 of this report and to interview several dozen European business leaders to gain

their insight and thoughts on the subject. Our intention has been to produce a manual of 14 recommendations covering the entire nomination process, from the structuring of the process through succession planning, candidate selection, candidate interview, and the induction of new directors, which we hope our readers will find useful and practical.

The changes highlighted throughout this study are a clear pointer that the age of Europe's boardrooms as "an old boys' network" is over. Recruiting directors among friends and business acquaintances is heavily criticised and the few boards that still do so stand out. What is emerging is the "battle-ready board," diversified in gender and thinking, equipped with the skills and competencies tailored to the strategy of the company, and well able to meet the challenges that European businesses will face in the coming years.

## **METHODOLOGY**

This report is a joint initiative by the European Confederation of Directors Associations (ecoDa) and Korn Ferry. The study draws on the decennial careers and experiences of both ecoDa members and Korn Ferry's partners as well as other academic research and thought leadership already published. Importantly, we have conducted interviews with dozens of European board practitioners, including chairmen, chief executives, board directors, and investors in Belgium, Denmark, Finland, France, Germany, Italy, Macedonia, Norway, Poland, Slovenia, Sweden, Switzerland, and the United Kingdom (UK).

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## About the European Confederation of Directors Associations.

The European Confederation of Directors Associations (ecoDa) is a not-for-profit association founded in December 2004 under the laws of Belgium. Through its national institutes of directors (the main national institutes existing in Europe), ecoDa represents approximately 55,000 board directors from across the EU. ecoDa's member organisations represent board directors from the largest public companies to the smallest private firms, both listed and unlisted.

## About Korn Ferry.

At Korn Ferry, we design, build, attract, and ignite talent. Since our inception, clients have trusted us to help recruit world-class leadership. Today, we are a single source for leadership and talent consulting services to empower businesses and leaders to reach their goals. Our solutions range from executive recruitment and leadership development programs to enterprise learning, succession planning, and recruitment process outsourcing (RPO). Visit [www.kornferry.com](http://www.kornferry.com) for more information on Korn Ferry and [www.kornferryinstitute.com](http://www.kornferryinstitute.com) for thought leadership, intellectual property, and research.

# Foreword



## **Dominic Schofield**

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## **Turid Elisabeth Solvang**

Managing Director, Norwegian Institute of Directors, and Chair of ecoDa's Work Group on Boards' Selection and Composition

Over the past decade, boards of directors around the world have seen their roles redefined regarding both the scope of their responsibilities, their actual workload, and their required agility. Today's boards of directors navigate rapidly changing waters, where storms are frequent and where safe harbours are few and far between. To fulfil their mission—not only keeping the boat afloat but also sailing and thriving—today's corporate boards must command a broad battery of qualities, skills, and experience. Concurrently, changes in regulatory frameworks affect boards' flexibility—including their composition.

In this project, ecoDA and Korn Ferry have joined forces to explore the consequences of this changing operational climate on the recruitment to boards of directors in European companies. Our goal is to develop a set of best practice recommendations for boards' recruitment that holds water against different national legal frameworks and corporate governance models.

Matching the unrivalled experience of ecoDA's membership with Korn Ferry's insight, we interviewed prominent board directors and studied the European corporate governance landscape. In so doing, we identified four forces that currently shape the agenda in European boardrooms and finally arrived at 14 key recommendations to cover the entire selection process. We are hopeful that shareholders, nomination committees, and board members around Europe will find our work provides the pillars around which they can build a robust nomination process that meets regulatory requirements as well as specific company needs.

This project is the result of a truly pan-European collaboration effort, which could not have been completed without the gracious contributions of the board directors, who took the time to provide input, as well as of representatives of national institutes of directors and of regional Korn Ferry offices. Special thanks to Roger Barker of Institute of Directors UK, Mattia Zarulli of Korn Ferry, and Béatrice Richez-Baum of ecoDa.

**Oslo/London/Brussels, 1st June 2015**

**Dominic Schofield**, Senior Client Partner, Korn Ferry; Korn Ferry Co-ordinator of the project

**Turid Elisabeth Solvang**, Managing Director, Norwegian Institute of Directors, and Chair of ecoDa's Work Group on Boards' Selection and Composition

# Section 1

## An overview of different governance regimes.

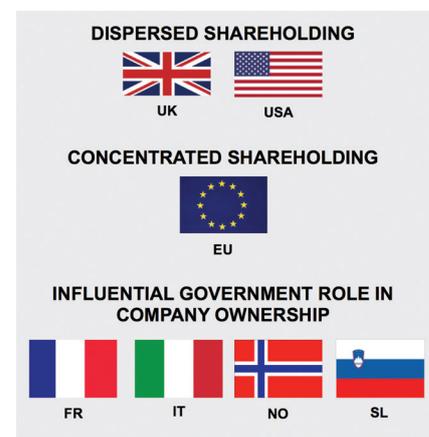
### Introduction

Corporate governance in Europe has evolved significantly over the last two decades. Companies from across the continent have adopted many aspects of global best practices in an effort to win the confidence of global investors and enhance corporate performance. At the same time, the European corporate governance landscape retains its distinctive historical diversity. Although the role and activities of directors and supervisory board members across Europe have much in common, there are key differences arising from national regulatory frameworks and local business norms that are relevant to any director serving on a European board. This section offers an overview of some of the main differences and points of convergence, therefore helping understand the context in which industry practitioners operate and setting the scene for defining the set of 14 best practices we describe in the last section of this report.

### Ownership structure

A basic distinction between European-listed companies and their UK peers is that share ownership in the UK (in common with the United States) tends to be relatively dispersed, with few investors holding more than a 5% stake in any individual company. Most shareholders are institutional fund managers working on behalf of pension funds, insurance companies, or mutual funds; their business model is either to actively trade or passively manage stocks as part of diversified equity portfolios. In contrast, major listed companies in continental Europe are much more likely to have a significant shareholder with a large equity stake (sometimes controlled via a complex pyramidal ownership structure). Prominent examples of European enterprises with concentrated ownership include Roche (Switzerland), BMW (Germany), L'Oréal (France), Finmeccanica (Italy), Hennes and Mauritz (Sweden), and Inditex (Spain). In most cases, the major shareholder is the family or descendant of the founding entrepreneur, although in some countries (e.g., France, Norway, Slovenia, and Italy) the state continues to play an influential role in company ownership.

Corporate ownership structure has fundamental implications for how companies govern themselves. A significant shareholder has the power to determine or heavily influence the composition of the board of directors. In many cases, they will be long-term investors who wish to play a direct role in shaping corporate



strategy and business values. This situation contrasts with that of a typical Anglo-American corporation, where responsibility for determining corporate objectives and strategy is typically in the board's hands.

### **Board structure**

Europe is highly diverse in terms of the structure of its boards. Traditionally, there has been a clear division between countries with a one-tier (or unitary) board structure and those with two-tier boards. In the one-tier structure—which remains the norm in the UK, France, Belgium, Switzerland, and Spain—the board consists of both executive and non-executive directors, although there is a growing tendency for executive participation to be restricted to the CEO and CFO. Two-tier boards consist of a management board of senior executives and a supervisory board of non-executive board members. The classic exemplar of a two-tier board system is Germany, although dual boards are also a feature of the Austrian, Dutch, Polish, Czech, and Slovenian corporate sectors.

In recent years, the options available to European companies have become more complex. A number of European jurisdictions (e.g., France, Italy, Portugal, and the Netherlands) have reformed corporate law so that companies can choose between a one-tier or a two-tier board structure; however, this has yet to majorly affect actual business practices; most enterprises have, so far, tended to stick with their traditional national model. Furthermore, it is fair to say that some European countries have never fitted comfortably into the one- and two-tier boardroom taxonomy. Listed companies in the Nordic countries, for example, often have a single-tier board structure comprising solely non-executive members (with even the CEO excluded from the board). Swiss companies are required to utilise a two-tier board structure in the financial sector but typically have one-tier boards in other sectors. Italy has its own distinctive board framework in which a statutory board of auditors oversees the activities of the main board in terms of its compliance with national regulatory requirements.

A significant minority of European countries mandate a key role for employees on the boards of listed companies. For example, recent German legislation requires partnerships limited by shares and stock corporations with residence in Germany and subject to equal co-determination to populate up to half of their supervisory board seats with employee representatives. Employee directors

are also a feature (although at times a rare one) of boards in Sweden, Finland, Norway, Slovenia, and a number of central European economies. In the UK, employee involvement on the boards of companies is extremely unusual, although there is nothing in the legal framework preventing it. In France, a legal requirement for employee directors has historically been limited to state-owned enterprises; however, a legislative reform in 2014 extended their involvement to a wider range of large companies.



### Corporate governance codes

European corporate governance has experienced convergence across a number of dimensions in recent years. All of the EU member states have adopted corporate governance codes that provide guidance on the structure and functioning of boards and that are applied on the basis of “comply or explain.” This approach to corporate governance regulation—which seeks to offer companies some degree of governance flexibility—was pioneered in the UK by the Cadbury Code (1992) and has since proven highly influential in promoting a common understanding of many governance principles, particularly those relating to the role of independent directors and the functioning of boardroom committees. However, there is still no European consensus on the desirability of splitting the role of chair and CEO. While in some countries (e.g., the UK, the Nordic countries,

and Germany) a combination of the two roles is either frowned upon or legally prohibited or simply not possible due to the adoption of a two-tier system, it remains a widely accepted practice elsewhere in Europe (e.g., in France and Spain).

The European Commission has also played an important role in shaping the corporate governance environment in Europe, particularly through directives and various recommendations improving directors' remuneration, independence, corporate transparency, and disclosure, and by strengthening the rights of minority shareholders. However, the Commission has pulled back from its earlier ambitions to radically harmonise European corporate governance. Over the years, it has abandoned plans to introduce a single EU corporate governance code and a European market for corporate control, and to abolish multiple voting rights. In 2004, it launched a new common legal framework for European public companies—the *Societas Europaea* (SE)—which seeks to facilitate the movement of companies across the EU single market. However, to date, this legal vehicle has been adopted by relatively few major European corporations.

An important factor differentiating the boardroom behaviour of European companies is their relative emphasis on shareholder and other stakeholder constituencies. Although a common duty for directors across Europe is to make decisions in the best interests of the company, UK boards (and UK courts of law) have historically defined those interests as being synonymous with the interests of shareholders. In contrast, directors and supervisory board members in many European countries (e.g., Germany, the Netherlands, France, and Slovenia) are required to interpret corporate objectives in a broader sense, with shareholders viewed as only one constituency amongst many others (e.g., employees, suppliers, the local community) who should be considered during corporate decision making.

The financial crisis of 2007/2008 has had significant implications for European corporate governance. National governance codes have been revised to correct perceived shortcomings in areas such as risk management, executive pay, and boardroom diversity. There has been a strong push to improve the gender balance of boards across a wide range of countries, with a number of them (such as Norway, Iceland, France, Belgium, Italy, and, most recently, Germany) introducing mandatory gender quotas in support of this objective. In Sweden, the government is planning to introduce mandatory quotas in 2016 if significant improvements

in gender balance are not “forthcoming.” Other European nations, such as the UK, have so far resisted quotas but have nonetheless made some progress in improving the gender balance of their non-executive directors over the last five years.

### **Shareholders engagement**

In most European countries, foreign investors have been growing in importance over the last decade, and now represent—in all but a handful of jurisdictions—at least 40% of the ownership base of listed companies. In the Netherlands, Hungary, and Slovakia, the figure is above 70%. Even in equity markets with relatively low levels of foreign shareholder involvement—such as those of Italy and Germany—the demands of international investors for higher levels of corporate transparency, credible and genuinely independent directors, and respect for minority shareholder rights are exerting a material impact on the governance attitudes of European companies. Activist hedge funds have, so far at least, been a less belligerent force for governance change in Europe when compared to the United States. European companies are also rarely subject to hostile takeover bids, which are viewed as disruptive and a source of unhelpful “short-termist” pressure by many European governments (although there have been occasional high-profile cases, such as Vodafone’s takeover of Mannesmann in 2000). The UK is a notable exception; an open market for corporate control has traditionally been seen by the City of London as an important way of exerting market discipline on company management and protecting the interests of minority shareholders.

An emerging trend in Europe is the growing role played by sovereign wealth funds in company ownership. Qatar Investment Authority, for example, has in recent years amassed major shareholdings in a diverse range of European companies, including Barclays, J Sainsbury, VW, Lagardère, Credit Suisse, LVMH, and Siemens. Other sovereign funds, such as the Norwegian Government Pension Fund, the Abu Dhabi Investment Authority, and the Government of Singapore Investment Corporation, are also increasingly important points of reference for European boards.

In summary, European corporate governance is rapidly changing in response to the needs of global markets and wider society as well as through growing input and engagement from shareholders. However, it also remains extremely diverse, with the continuing influence of local business culture very much in evidence across the continent.

## Section 2

### The four forces and other trends.

#### The 4 forces pounding the boardrooms of Europe's companies

- I. Economic turbulence and Eurozone instability has become the “new normal
- II. More governance, more guidelines, more regulation
- III. Diversity
- IV. More active investors and greater scrutiny from institutional investors

#### Four forces

The global financial crisis that erupted in 2008 has had a powerful and generational impact on the economies of Europe. Combined with the shift in economic power to the East and digital revolution (whose only real parallel is the 18th-century Industrial Revolution), this crisis has dramatically increased the scope of work and pressures on European company boards. From our research and interviews with dozens of European business leaders that we have conducted as part of this exercise, we identified four forces lashing the boardrooms from Dublin to Warsaw.

#### **FORCE ONE: Economic turbulence and Eurozone instability has become the “new normal”.**

During the World Economic Forum 2015, the new global context was defined as “a fast-paced and interconnected world, where breakthrough technologies, demographic shifts and political transformations have far-reaching societal and economic consequences.”<sup>1</sup> Board directors tell us that, under these circumstances, their boards need to be more financially savvy and nimble, and they must give more time to ensure their boards are resilient enough to face and respond to more volatile business cycles.

#### **FORCE TWO: More governance, more guidelines, more regulation.**

Since 2008, most European countries have modified and/or tightened their corporate governance guidelines and rules. In the financial services sector, directors report significant regulatory oversight of board appointments. Responding to guideline changes, most European boards will undertake externally facilitated reviews of their performance and effectiveness. Boards are increasingly taking ownership of talent management and senior executive succession, and are adopting a more rigorous approach to their own succession. Jim Leng, non-executive director of AON Plc, Alstom SA, and SID of Genel Energy Plc, said, “Governance is increasing exponentially and the time commitment is growing.” Another European (financial services) chairman commented, “The regulatory burden on boards has massively increased.” However, most directors told us this pressure has led to a more rigorous and structured recruitment process for directors.

**FORCE THREE: Diversity.** This is driven by social, political, and commercial forces—all seeking to enhance the collective experiences, insights, and discussions of boardrooms—and to avoid the curse of “groupthink,” which for many has been a cause of past dysfunction and crisis in European business and economics. Initially focused on improving the gender balance of boards, the pressure today

is increasingly as much about ensuring that boards have diverse geographic and cultural inputs as it is about gender diversity. Or what Sir Peter Gershon, chairman of National Grid Plc and of Tate & Lyle Plc, calls “diversity of thought.” Chris Cole, chairman of Ashtead Plc and Applus Services SA, said boards have responded to changes positively: “We now look for chemistry and skill sets rather than personal connections and old-style CVs. There are two types of chair—consummate long-term chairs and newer chairs who are more looking to assemble a board of real diversity.”

A number of European countries have introduced gender quotas for listed boards, both voluntary and legally binding, leading to improved female representation in comparison with the rest of the world (see table below). The most recent country to introduce gender quotas was Germany, whose CDU/SPD Coalition has legislated that, as of 2016, 30% of new appointments to supervisory boards of publicly traded companies with more than 2,000 employees must be women. Businesses will have to appoint female candidates or leave a seat vacant, i.e., there will be no “get out” clause claiming insufficient female candidates. Germany’s women’s affairs minister, Manuela Schwesig, said she hoped the law would also promote change in smaller companies not listed on the stock exchange and added that “this law is an important step for equality because it will initiate cultural change in the workplace.”<sup>2</sup>

**Gender quotas and ratios for selected European non-executive boards**

Country	Compliance Year	Gender Quota	Male/Female Ratio (March 2015)	Mandatory vs. Voluntary
Norway	2008	40%	60/40	Mandatory
Iceland	2013	40%	55/45	Mandatory
Spain	2015	40%	84/16	Voluntary
France	2016	40%	71/29	Mandatory
Austria	2018	35%	84/16	Voluntary
Belgium	2017	33%	80/20	Mandatory
The Netherlands	2016	30%	82/18	Voluntary
Italy	2015	33%	75/25	Mandatory
Germany	2016	30%	84/16	Mandatory
United Kingdom	2015	25%	85/15	Voluntary
Sweden	n.a.	Strive for more equal gender balance	70/30	Voluntary
Finland	2008	Both genders should be represented	73/27	Voluntary
<b>Europe (ex-EE) % women on boards</b>				<b>20.3%</b>
<b>Global (ex-Europe) % women on boards</b>				<b>11.6%</b>

Source: Boardex, as of March 2015.

The discussion and debate on diversity is evolving beyond gender to a broader diversity of age, culture, different experiences, and a deep track record and understanding of different geographies. A 2014 survey by Hermes Investment Management<sup>3</sup> found that 27% of institutional investors thought board gender diversity was important, while 35% thought it unimportant. In contrast, 86% thought it important that boards should encompass a diversity of experience, and just 5% felt this is unimportant. This view is echoed by a director we interviewed who serves on international financial services and industrial boards: “Is greater gender diversity leading to better performance? This is uncertain. In my view, we need more diversity but not just gender diversity. I believe in diversity in the wider sense of the term.”

**FORCE FOUR: More active investors and greater scrutiny from institutional investors.**

Whilst in Europe we are still some way off American levels of active investment by hedge funds and other investors, our research clearly picked up a strong sense that there is a heightened level of scrutiny from financial institutions and investors. Several directors told us that their investors are more likely to vote against directors at AGMs than in the past. Clearly, executive remuneration has been the principal catalyst for investor engagement and reaction. The so-called “Investor Spring” in the UK in 2012 was related to executive pay versus company performance and saw a number of FTSE CEOs resign as a result. In Switzerland, businessman and investor Thomas Minder led a campaign over a number of years to give shareholders a greater “say on pay.” His victory at a referendum in Switzerland has led to a change in Swiss corporate law. Our prediction is that active investment by shareholders is a trend that will only increase and influence the role of independent board directors very much in the years to come, from both a workload and a reputational perspective.

The result of these four forces is that boards are taking a much more structured approach to their formation and to the skills and behaviours possessed by potential board directors. Additionally, increased scrutiny and media exposure of wrongdoings heightens the reputational risk of those joining the board. At the same time, increased regulation on and transparency of board activities, coupled with initiatives to foster boardroom diversity, mean that the traditional notion of boards being “cosy clubs of retired CEOs” is being relegated to the past.

### **Professionalisation and a more complex board agenda**

The agenda of European boards has become increasingly complex, changing the roles of the board and its directors from passive supervisors to active supporters and shapers of business and strategy. As a consequence, boards must address topics beyond governance and compliance and get involved in strategy, financial/auditing, remuneration, diversity, talent succession, and increasingly technical topics such as cybersecurity. Jim Leng told us, “Boards will need to spend more time debating and discussing strategy. And the agenda is getting bigger. There’s the IT agenda, cyber security, not to mention corporate taxation. The agenda is exploding.” Additionally, more complex agendas are having a tangible impact on the amount of time directors have to dedicate to their board roles and to the continued learning they need to undergo.

“A Ten years ago, it was more about being in a select group—joining an ‘exclusive club’—whereas now, the importance to the markets of corporate governance means that it’s a serious job. In that way, the NED role has moved from being an honour to being a professional responsibility.”<sup>4</sup>

**Ken Olisa**

Restoration Partners, Chairman  
Thomson Reuters, NED

## The debate and “heat” around board nomination procedures.

As governance and the trend for greater rigour and transparency in boardroom processes increases, the recruitment of board directors has become more contentious: perceived “old practices” often provoke a sharp and public reaction from investors and media observers alike.

### **The curse of informal and political networks**

In a number of European countries, sharp criticism has been levelled at the existence and perceived disproportionate power of networks and the “who you know” factor. One female director in the UK’s FTSE 100 lamented to us that “processes are heavily influenced by people’s networks” and a study of French boardrooms in 2013 by the European Economic Association claimed that “social networks” heavily influence who joins boards in France. Additionally, director nominations are at times a “political game,” as several large companies across Europe are partially state owned.

High-profile appointments to a number of Europe’s leading companies—which in the past would not have attracted as much attention—have generated significant heat from the press and investor community since 2008.

For instance, the shake-up in the boardrooms of state-owned Italian companies (such as ENI, Enel, Poste Italiane, and Finmeccanica), announced by the Renzi government in early 2014, provoked a storm of criticism toward the long-standing tradition of political interference by the state and political system known as *toto nomine* (or the “appointments sweepstake”)—where politicians reward their *favoriti* with board seats. Significant efforts were made by the Renzi Italian government to put in place clearer nomination processes and, noticeably, the “shake-up” brought several women to the upper echelons of some of Italy’s largest companies. Nonetheless, the whole affair still generated criticism, with one of Italy’s most prominent business leaders claiming, “I find it shocking that some of these companies have been left in limbo for several months.” The firing of the chairman and CEO at ENI was, for David Trenchard (vice chairman of Knight Vincke, which had investments in ENI), “the final straw which made us sell our stake,” as quoted in *The Financial Times*.<sup>5</sup>

Grupo Santander—one of Europe's most powerful and successful banking groups—came under fire from a number of directions at the speed with which Ana Botín replaced her father Emilio Botín as Executive Chairman after his death in August 2014. The Wall Street Journal ran a big splash on the whole succession process, quoting a range of sources in the banking and investment world that “Santander had missed an opportunity to end the family dynasty and adhere more closely to international corporate governance standards that eschew such handovers.”<sup>6</sup>

When the wife of Volkswagen Chairman Ferdinand Piëch was appointed to Volkswagen's supervisory board in August 2012, there was an outcry from both the press and shareholders. Kindergarten teacher Ursula Piëch's appointment brought the number of Piëch-Porsche family members to five on the 20-person supervisory board. Whilst the family owns a majority of Volkswagen's shares, a number of shareholders and shareholder representatives voiced concern that this increase in the family's presence on the board could have negative effects. At the time, a spokesman for Ivox (a leading German shareholder advisory group/proxy adviser) commented that “the concern with Volkswagen is that the corporate governance mechanisms that should be in place at a well-managed company are simply not there.”<sup>7</sup>

The same year, the appointment of Liliane Bettencourt's 25-year-old grandson to the L'Oréal board provoked similar criticisms from the press and investors. CAC40-listed L'Oréal was founded by Liliane Bettencourt's father in 1909, and the family remains a significant shareholder with three seats on the board (whom, The Guardian reported, “vote as a bloc”<sup>8</sup>). Jean-Victor Meyers became the youngest director on the CAC40, and his relative lack of experience (he had been a sales clerk and assistant product manager for Yves Saint Laurent's cosmetic line) came in for a lot of criticism from shareholders.

## The Nordic Model: the way to better shareholder engagement?

A fundamental principle of Nordic corporate governance is the authority given to shareholders to select and elect a company's directors. In this "active ownership model," the nomination committee is constituted not by board members but by representatives of the largest shareholders. We discussed the transferability of this model to other European countries and jurisdictions with all the directors we interviewed during this study and had a mixed response.

In Italy, Banca Monte Dei Paschi Chairman Alessandro Profumo felt there was merit to this model of governance, describing it as "positive, balanced, and transparent." A prominent Swedish chairman interviewed for this report stated, "With the current model I believe we have taken a great step towards treating minority shareholders more equally" and confirmed that "the Swedish governance model with Owners-Board-Operational management works well and the roles [are] very clear." In the UK, however, it met with little support from the business leaders we spoke to, which arguably reflects the more complex nature of a typical UK company's share register, with the largest shareholders seldom holding more than a 5% share of the company. One chairman and senior independent director of a company that has seen investor battles said, "We have to represent all the shareholders, and having a couple of major shareholders deciding the appointments to the board could be hugely disruptive and chaotic." Val Gooding, chairman of Premier Farnell Plc and non-executive director of Vodafone Plc said, "I think it could be the road to ruin if adopted here. I think the separation of roles between investors and nomination committees is important. Unless you have a major shareholder, which shareholder qualifies?"

Aside from the technical obstacles (e.g., dispersed shareholding) to the adoption of the "Nordic model," there are cultural differences to be taken into account. Mindful of this, Svein Aaser, chairman of Telenor ASA, told us, "I would be very hesitant to introducing the Swedish corporate governance model outside of Scandinavia. Compared to other countries, we are a small economy with a fairly young industry. It is important to respect other cultures with long and established traditions and to understand that we do not necessarily know what's best for others."

## Gender quotas: legislating for gender balance in Europe's boardrooms

The gender balance on European boards has improved significantly in recent years. Recent data from third-party database Boardex shows that 19.8% of directors on European boards\* are female. Previous studies placed the percentage of women on boards at 15.6% in 2012 and 12.2% in 2010. However, while these data show a clear increase in female participation on Europe's boards, the same increase is not being reflected in the share of females in board leadership roles. For example, in January 2015, only 2.5% of board chairs were women.

A number of European countries have implemented mandatory gender quotas for public companies to achieve greater balance among their boards, with Norway setting the example when it imposed a 40% quota in 2008. Although Norway is indeed the leader in terms of female representation across Europe, encouraging results are also being achieved without mandatory quotas in the UK (20.7%) and Sweden (30%). Norwegian director Terje Venold, chairman of the nomination committees of Storebrand and Norsk Hydro, commented, "the Quotas Act has influenced the way we reason when it comes to diversity. When the Act was introduced, the NomCo experienced some practical challenges because there were not sufficiently many women to be found, at least they were not visible. This has dramatically changed. The Quotas Act has definitely been successful in that sense.

I also believe that the raised competence among those women who now take on board positions will, in a long-term perspective, influence management thinking...."

On the other hand, the 40% female representation quota has received criticism from some business leaders, shareholders, and think tanks. Helena Morrissey, founder of the 30% Club in the UK and chief executive of the Newton Investment Management company, has been quoted in the UK press as saying, "As more women join boards without the imposition of quotas, the more they can demonstrate the value they can add."<sup>9</sup> A 2014 Bow Group Publication in the UK offered an argument against the case for quotas, declaring that "quotas are the legislative way of dealing with the symptoms of under-representation of women, but do not actually address the cause of under-representation."<sup>10</sup>

“...quotas are no impetus for professionalisation of the board. Before the quota law, you had to have board experience from other relevant companies to be elected as board member. But this could not be sustained; there were simply too few women.”

**Idar Kreutzer**

Posten Norge, Chairman,  
Nomination Committee

\* European boards include Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Italy, Luxembourg, the Netherlands, Norway, Portugal, the Republic of Ireland, Spain, Sweden, Switzerland, and the UK as of 21 January 2015.

## Section 3

### The 14 steps to effective board building.

#### Board nomination process overview

“A key function of the board is ensuring a formal and transparent board nomination and election process.”

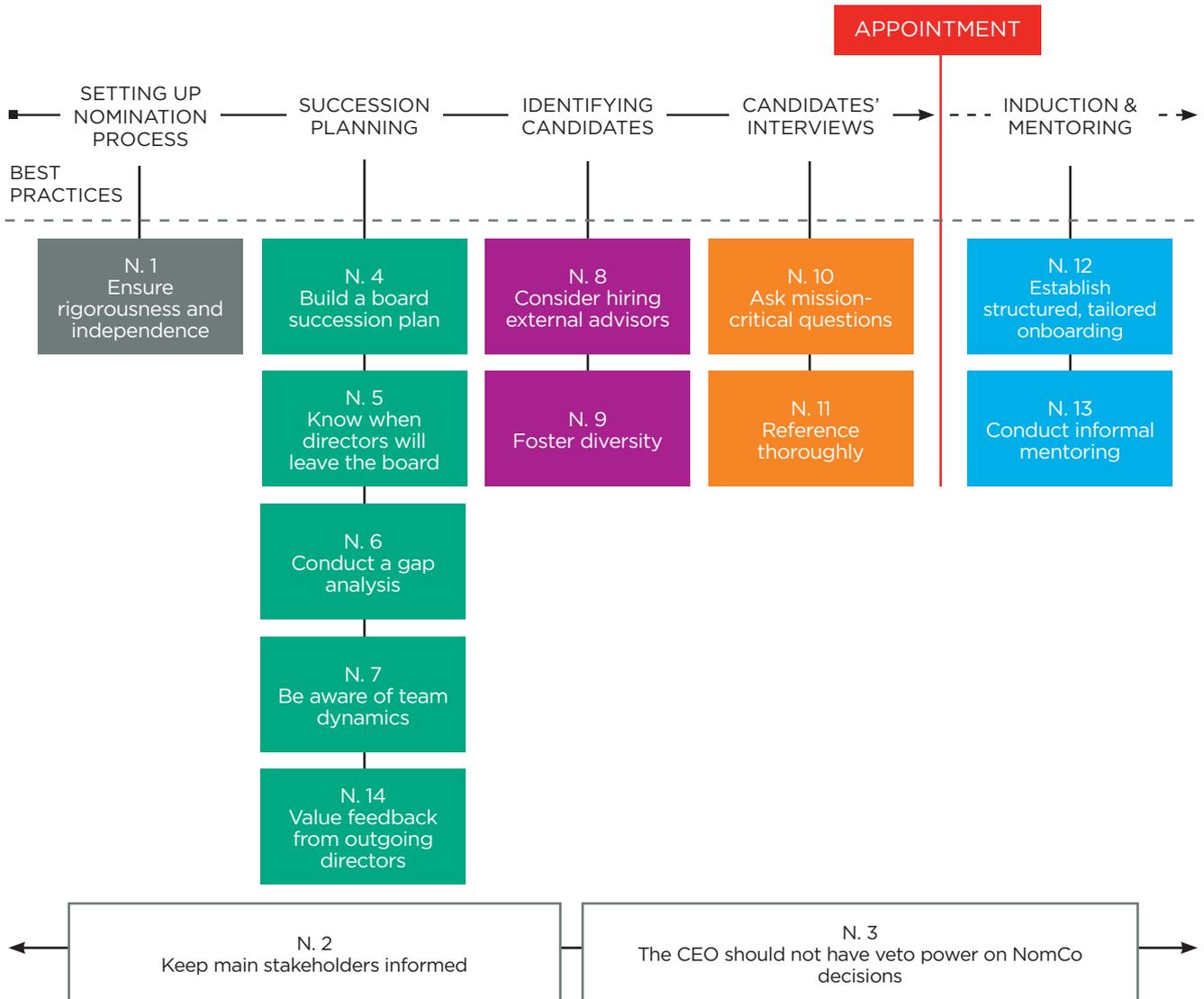
[OECD Principles of Corporate Governance<sup>11</sup>](#)

#### Introduction

As highlighted throughout this report, corporate governance in Europe has evolved significantly in recent years and will undoubtedly continue to do so as countries further develop their governance models and emulate governance codes applied successfully elsewhere, and investors become more aware of their rights as shareholders. Particularly for board nomination processes, our research has shown that while different models exist, some systems and countries are seen as “trailblazers” (arguably the UK and Scandinavia) and, as some at the EU level try to drive toward a unified set of governance guidelines and principles, these will likely form the “core” of new pan-European corporate governance recommendations.

This section draws upon the collective experiences of the seasoned business leaders we interviewed as part of this exercise and the combined insights of Korn Ferry and ecoDa. The result is a set of 14 best practices that together make a good guide/manual to help boards and their nominations committees develop robust and effective nomination procedures. The ultimate objective is to help European boards define and adopt a “best-in-class” nomination process. Whilst companies have their own corporate histories, personalities, and cultures, we believe the 14 steps set out below offer helpful tools to guide a board (regardless of jurisdiction) to build a best-in-class process and system to recruit appropriate directors and ensure smooth and sustainable boardroom succession.

**Board nomination process timeline and best practices**



**Step 1: Ensure rigour and independence in the board nomination process from the outset.**

Any board nomination process will be only as good as the context and framework in which it is carried out. In the past, many appointment practices tended toward closed networks and heavy involvement by “chairmen” and/or chief executives.

There was not enough effort to involve other board members and even less to identify potential candidates outside of the chairman’s/CEO’s professional and social circles (with some cultures worse than others). However, “today the process has rightly become more formalised, and I can’t think of a major company appointing somebody without a formal process,” said Charles Berry, chairman of The Weir Group Plc and Senior Plc.

This view is echoed by Pierre Rodocanachi, vice chairman of Vivendi: “French governance has significantly improved since 2008. We have moved from a situation where most often the chairman selected his NEDs to one where the nomination committee recommends the required adjustments to the board to adapt it to the strategy and to the challenges that the company faces.”

Recent corporate scandals, increased investor awareness, and new guidelines have certainly helped in this regard. Norwegian director Silvija Seres agrees: “Guidelines have made us better; companies have a more professional approach to board recruitment—there is less tendency to look for board candidates among the usual close networks.”

Board appointment processes are typically managed by the nomination committee; however, it is not unusual to involve other independent directors who do not sit on the nominations committee. As Tom de Swaan, a director in the Netherlands and Switzerland, said, “Assure buy-in and involvement of the entire board.”

**Step 2: Keep main stakeholders informed.**

Involving other stakeholders (i.e., executive management, employee groups, significant investors) in the appointment of board directors isn’t always easy in practice, as one of our interviewees told us: “It is an interesting idea, but it is hard for stakeholders to assess what happens in the boardroom, and [stakeholders] could not properly judge on fit of candidates.” However, keeping the largest shareholders abreast of developments throughout the nomination process is considered good practice, as indeed is informing them

that succession (at the executive and non-executive director team level) is on the board's agenda. "I involve the stakeholders who are crucial in order for me to do a good job. There is no risk as long as one is transparent and very clear on the fact that the board exists for all shareholders and not only for one group of them," Marianne Johnsen, chair of the Nomination Committee of Norwegian Property ASA, told us.

**Step 3: The CEO should not have veto power on nomination committee decisions; however, he/she should be involved in the process and be consulted during the decision making.**

There are contrasting opinions on whether the CEO should be a member of the nomination committee (and, in some countries, CEO participation may not be allowed by regulation or board structures). However, it is beneficial to take into account some degree of informal CEO input, both in terms of skills and behaviours needed on the board. One chairman told us: "The flip side: if a CEO really doesn't get on with a candidate for a board seat, then it is probably a non-starter." Nevertheless, chairmen would agree that it is a potential threat to the integrity and independence of the entire process if the CEO has veto power or excessive influence over nomination committee decisions. "If a CEO tries to wield a veto, it is a sign of deeper problems," said Charles Berry.

**Step 4: Build a board succession plan.**

A succession plan is a set of guidelines the board/nomination committee should follow when appointing a new independent director. It will describe the competences, experiences, traits, and drivers the board needs to discharge its duties effectively and work as a functional group. The plan should also identify profiles of individuals who match those skill sets and behaviours. The level of detail a plan will have is a function of the company's size, requirements, and the regulatory environment in which it operates (i.e., more will likely be demanded of financial services companies).

Too often, however, the sudden departure of a director causes the board to rush the search and the appointment of a replacement. The danger here is that the board may tend to flip hurriedly through their rolodexes in search of a friend, a past colleague, or someone in their network who would accept a board role at short notice. In worst-case scenarios, the chairman (or the senior independent director or CEO, if it is the chair who

## Board succession planning

“A sound plan leads to successful outcomes and board succession is no exception.”

**Oliver Pawle**

Korn Ferry, Chairman, Board & CEO Services

has left) will gather the trusted advisors and, without consulting the rest of the board, appoint a new director. A well-thought-through succession plan (which has the support of all the board) will help the board in their thinking and decision making, and should help guide recruitment processes regardless of the time pressure and suddenness of a departure. The board will then have a clear idea of the skill set needed around the board table. Luc Jacques Bertrand, CEO of Belgian firm Ackermans & Van Haaren, said, “Succession is one of the most important tasks of the nomination committee”

**Step 5: Know when directors will leave/rotate off the board.**

A good succession plan will be crafted around a company’s specific needs. First is to seek clarity as to when directors will rotate off the board, either as a consequence of their mandate expiring or due to age (some boards/company bylaws set an age limit for board appointments and re-election), or because directors express their intention to leave at a specific juncture. Mapping out rotation/departure timelines will give the board enough time to take adequate action and prepare for change.

As anybody who has gone through a board appointment process will testify, hiring a new director takes time. Commencing a process in earnest will allow the board and nominations committee enough time to evaluate potential candidates properly and explore widely all the available options.

**Step 6: Conduct a gap analysis.**

Key to any succession plan will be the “gap analysis”—that is, having reviewed the strategy and direction of the company identifying (and agreeing) the range of skills and experiences needed around the boardroom to ensure that the strategy is adequately executed and supported. “You need to look at the strategy of the business,” Jim Leng told us. “[Strategy] is the starting point for the board in its formation process. First we need to know where we are going and then what combined skills are we likely to need to get there.” The overlap of the skills needed with the skills currently present around the board table will highlight current “gaps” as well as future “gaps” caused by members rotating off the board. The complexity of the skills matrix varies by company, but it’s not unusual to score directors against up to 15 industry and functional skills. Many boards fairly regularly conduct a “gap analysis,” and some of those we

spoke to said that it is helping their boards think more deeply about what they really need. Dominique Damon, director of Tessengerlo Chemie and Bongrain, told us, “First of all, it is essential to assess the board’s current strengths and skills in order to define the assets that could complement it at best. The chairman of the board should be involved in this appraisal step and could use that opportunity to evaluate the interests and expectations of the already belonging members. It is obvious that from time to time, and hopefully on a yearly basis, the complementarity between existing board members should be analysed so as to even out specific skills and experiences.”

Some of the directors we interviewed as part of this study have noted the importance of using a board succession plan as a risk mitigation tool. In some companies, “worst-case scenarios” are created to determine what would happen if any of the board leaders were to suddenly step down from his/her role. For example, would any director be able to take up the role of chairman if the incumbent were to leave? Or, would anyone be able to step into the audit chair role at short notice? Or, would the chairman be able to temporarily fill in the role of executive chairman in case of an unexpected departure of the CEO?

**Step 7: Be aware of how team dynamics facilitate (or hamper) board activities.**

Having the right competencies and experiences around the board table alone is not sufficient to guarantee board effectiveness. Team dynamics and behaviours are equally important, and underestimating the role of relationships among board members means undermining the board’s ability to adequately support the company. Yann Delabrière, chairman and CEO of Faurecia and board member of two other French companies, argues, “The quality of board members depends on their experience and on how they complement each other. I’m not solely looking for expertise or competencies. I need a good mix of business experiences capable to bring vision that complements mine.” Of the same opinion is Chris Cole, chairman of WSP Global Inc and Ashtead Plc: “Finding the right chemistry in new board members is essential. Chemistry and egos have to fit - it is not just about skills.

The recruitment process needs to pay careful attention to assessing “the character fit” of potential new directors onto the board; however, the nominations committee must be careful to check that what psychologists call “unconscious bias” does not

## Identifying candidates

“Diversity in relation to women and men is in many ways given, but it is equally important to have diversity in terms of skills, disciplines and management, and particularly social skills.”

### Terje Venold

Storebrand, Chairman, Nomination Committee  
Norsk Hydro, Chairman, Nomination Committee

creep in. To avoid this, develop a list of behaviour and personal traits required to be an effective member of the board, and grade potential candidates against these to work out whether there is a “character fit” or not.

### **Step 8: Maintain independence of process by hiring external professional advisors.**

Armed with a detailed succession plan, the board will know what to look for in independent director candidates and will be able to craft a comprehensive position specification. Most boards are likely to have collectively very wide networks, which can and should be accessed and referred to during the search process; however, these networks alone are by definition finite. Appointing an independent third party, for instance an executive search firm, should ensure a much wider search of talent pools and introduce individuals who fall outside existing networks. This is the surest route to ensuring independence and arguably bringing well-qualified directors onto the board.

### **Step 9: Use board appointments to foster diversity in the board’s makeup without losing sight of the skills needed.**

Hiring external help is no excuse for the board to “step back and enjoy the ride.” In the words of Luc Jacques Bertrand, CEO of Belgian firm Ackermans & Van Haaren, “Total commitment and high energy are my number one criteria.” It is paramount for the board/nomination committee to get fully involved in the process, developing the job specification for the position or requesting that the search firm (if indeed a search firm is engaged) spend sufficient time with the board and the business to understand what the board needs, and what is the culture of the company and boardroom. Search firms must be pushed to look beyond the obvious candidate pools, providing what Rolf Soiron, chairman of Lonza Group, defines as “creative solutions.” Appointing a new director is also an opportunity to foster board diversity, not simply in terms of gender balance, but more broadly from the perspective of diversity of thought and background—i.e., diversity of age, experience, nationality, and culture. “I’m in favour of diversity at board level,” said Thierry Peugeot, “as it is good to challenge ideas from different angles.” Boards should nonetheless be mindful that diversity should not come at the price of the appropriate and required experiences and behaviours needed around the board table. Interestingly, some directors revealed that, at times, international diversity could be an obstacle rather than a benefit

to boardroom discussions. A non-executive director of four Swiss companies mentioned, "There are barriers in terms of personal presence and travel requirements, as well as language barriers (as foreigners need to speak the country's language)."

Boards must have the right mind-set if they are serious about fostering diversity, said a recently appointed female director of two pan-European companies. "In order to improve diversity on boards," she said, "the people sitting on the nomination committee should be more open to diversity themselves; it is not right, say, that only people with FTSE 100 experience get seats on the boards of FTSE 100 companies."

#### **Step 10: Ask mission-critical questions during candidate interviews.**

A proper search process will ensure that the nomination committee meets individuals whose skills, experiences, and behaviours broadly match the position specification. Even so, the interview stage is the principal opportunity for the nomination committee to properly assess the "fit" of the skills and behaviours the board says it needs in its new directors. Therefore, these interviews should be properly prepared for.

Best practice suggests the committee assemble a series of "mission-critical" topics and areas to be probed with appropriate questions. Some excellent examples of mission-critical questions boards can use during the recruitment process are set out in a recent study by Ram Charan, Professor Michael Useem, and Korn Ferry Vice Chairman Dennis Carey (*Boards That Lead, 2014*):

- Does the candidate have the capacity to think strategically about the firm's competitive position and thus contribute to the ongoing evolution of its central idea?
- Is the board candidate familiar with and experienced in the specific strategic and execution issues derived from the central idea?
- Does the candidate have a proven record of working collaboratively with executives at other companies in developing and implementing business practices?
- Will the prospect add intellectual and experiential diversity to the board, plugging weak spots and adding bench strength for guiding the central idea, strategy, and execution?

#### **Candidate selection**

“A particularly poor appointment was when we appointed some international ‘big names’ who did not participate much; some of them did not spend the time needed to learn about the business.”

**Swedish chairman and member of nomination committees**

## Induction and mentoring

“We spend a lot of time on training new board members. As chairman, I have appraisals with all board members. The administration also has a program to introduce new members. I personally follow up closely on new members. I call on them and try as best I can to take care of them the first year.”

**Anne Carine Tanum**  
DNB ASA, Chairman

- Will the candidate be ready to stand tall when vital issues are on the line, the stakes and stress are high, and direct leadership of the company becomes essential?
- Does the prospective director generally add real value not only to the boardroom but also to the executive suite?

### Step 11: Reference thoroughly.

The best way of assessing character and behaviour (and then being able to make a decision on “character fit”) is to reference potential candidates thoroughly—with their board peers, current and former colleagues, mentors, and chairs/directors who know them. Be clear and structured when making the reference call—and use the list of behaviours you crafted at the start of the process as a guide.

Some people have raised the possibility of using psychometric testing to evaluate a potential independent director’s character and behaviours. We tested this idea with all the business leaders we spoke to during this study and met with an overwhelming consensus against using psychometrics for non-executive board recruitment. One director of Danish and UK companies said, “For NED roles, you can achieve as much through referencing as you can through psychometric testing.” All agreed on the need for detailed and thorough referencing. “We need to increase references and be systematic about it. Even if people are well identified with a reputation on the market, we need to have diverse angles to learn about the individual beyond what is public,” Thierry Peugeot told us.

### Step 12: Establish a structured, informative, and tailored induction programme.

The appointment of a director does not conclude the recruitment process. Newly appointed directors must become familiar with the company and its culture in fairly short order. A structured and tailored induction process is the best way of helping them do so. Site visits are highly recommended, but, as one director wryly commented, induction programmes should not become an excuse for “corporate tourism”.

Induction programmes are a crucial component of the appointment process, as they reduce the time it takes for directors to start making a meaningful impact, provided they are thoughtfully crafted. Robust programmes should be structured

and informative. Additionally, by leveraging information gathered during the search process and reference reports, "Induction plans can be tailored to the individual directors' needs," said the company secretary of a UK FTSE 250 industrial technology company.

**Step 13: Mentoring should be considered for new/first-time directors.**

Clearly, not every director needs to be mentored; however, first-time directors can find informal mentorship by more experienced directors and chairs useful and help get them quickly up to speed. Unlike induction and training programmes, "Mentoring is to be an informal process that will develop naturally as the chairman cultivates the right relationships with NEDs," said Charles Berry. An alternative way to engage with newly appointed directors is to assign mentors, as suggested by Birger Magnus, chairman of Storebrand ASA and Hafslund ASA, and director of SAS AB: "A 'godfather' principle is probably not a bad idea."

**Step 14: Value feedback from outgoing board members.**

Being aware of what the board needs to support the company's strategy moving forward is a cornerstone of best practices of board appointments. This, however, should not lead to dismissing the experience gained by those who have sat on the board. Thoughts and opinions from outgoing board members can be highly insightful, particularly so as departing directors will typically be more frank in their analysis of board dynamics and more open in sharing their feedback. Constructive criticism should be taken in stride and used to ensure that past mistakes, if any had been committed, are not repeated.

**Conclusion**

We hope that nominations committees will find these 14 steps useful. We work with boards every day, and these pointers are a distillation of the growing best practices we see. Boards that adopt these best practices during their recruitment processes will find they have a competitive advantage in attracting the best candidates for director roles.

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# Endnotes

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