

# STRUCTURAL POSITIONING OF NOMINATION COMMITTEES: EVIDENCE FROM ICELAND

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## Abstract

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Nomination committees (NCs) are the subject of ongoing scholarly and professional debates regarding their purpose, practices, and organizational structure. Existing research suggests that NCs can enhance corporate governance by improving the process through which directors are appointed (Al-Absy & AlMahari, 2023; Grove et al., 2020). In Nordic corporate governance, these committees are integrated in various ways, either as shareholders committees or subcommittees of the board. Iceland, a Nordic country, serves as a critical case study for investigating perspectives among stakeholders on the structural positioning of NCs — whether they should operate as subcommittees of corporate boards or shareholders committees. This unique context of Iceland adds a layer of intrigue and curiosity to our research. Interviews were conducted with thirteen individuals comprising shareholders, board members of publicly listed companies, and nomination committee members. Additionally, surveys were distributed among shareholders, board members, and nomination committee members of Iceland's 300 largest corporations in 2020 and then again in 2023. The findings suggest that NCs should be shareholders' committees voted by the shareholders instead of board committees. Such an arrangement is proposed to optimize the benefits for shareholders and boards in forming and operating NCs.

**Keywords:** Nomination Committees, Corporate Governance, Subcommittees, Iceland, Nordic Countries

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## 1. INTRODUCTION

In the past 20 years, nomination committees (NCs) have become part of the governance structure in many countries, including the Nordic countries. NCs have been recommended in the Nordic countries' corporate governance guidelines, including guidelines on establishing and operating them. These guidelines are not mandatory, although they encourage companies to establish such committees;

there is no requirement (Committee on Corporate Governance, 2019; Norwegian Corporate Governance Board [NCGB], 2018; Swedish Corporate Governance Board, 2020).

NCs are a relatively new aspect of corporate governance in many countries, Iceland included, and have received minimal research attention. Although provisions for NCs first appeared in the Icelandic Corporate Governance Guidelines in 2009, the first committee was not established until 2014.

The ideology behind NCs arises from the need to improve the process of selecting board members (Carlsson, 2007). Previously, forming a board was generally considered informal and opaque, resting largely on the shoulders of the chief executive officer (CEO), the board's chairman (Carson, 2002; Sjöstrand et al., 2016), or the largest shareholder (Carlsson, 2007). The introduction of NCs contributes to a more professional process for selecting board members through a thorough analysis of directors' skills and the selection process itself (Ruigrok et al., 2006).

Historically, two types of board subcommittees have been prevalent and integral to corporate governance: the audit and remuneration committees. Following these, NCs have emerged as the youngest of the traditional committees and, as such, have not been as extensively researched within governance studies as the other two (Huse, 2007; Kaczmarek & Nyuur, 2016). Additionally, there is considerable variability across countries regarding how NCs are established and where they are positioned within the corporate governance structure. The variability is evident in the Nordic countries, which often align in terms of corporate governance practices (Sjöstrand et al., 2016). In Denmark, NCs are a subcommittee of the board (Committee on Corporate Governance, 2019), while in Norway and Sweden, they function as a shareholder committee (NCGB, 2018; Swedish Corporate Governance Board, 2020). It can be either in Finland, but NCs are typically associated with shareholders (Securities Market Association, 2020). Both forms are practiced in Iceland, but the final word always rests with the shareholders at shareholder meetings. The Icelandic guidelines on governance do not specify this arrangement definitively. An information booklet on NCs, released concurrently with new governance guidelines in 2021, mentions that NCs can fall under either shareholders or the board (Iceland Chamber of Commerce, Nasdaq Iceland, et al., 2021). Thus, when an Icelandic NC is established, it may differ in whether it is a board subcommittee or a shareholder committee. Opinions among stakeholders vary on which approach is more successful (Friðriksson, 2019; Halldórsson, 2019). Additionally, there are other differing aspects between countries, such as whether NC members may be board members or must be independent of the company's board, whether it is permissible for a board member to be a member of NCs, and whether board members can form a majority of NCs.

This study attempts to elicit stakeholders' perspectives on which form is sensible when deciding whether an NC should be under the shareholder's committee or a subcommittee of the board. The advantages and disadvantages seen by stakeholders in each form will be examined, as well as other related aspects concerning the operation of NCs, such as the appointment of committee members. This study addresses the research question:

*RQ: What are the attitudes and arguments of different stakeholders regarding whether the NC should be a subcommittee of the board or under the shareholders?*

The paper is organized as follows. Section 2 is the theoretical overview comparing the structure of NCs within the governance guidelines in Iceland

and other Nordic countries. Section 3 is the research methodology. Section 4 is the presentation of the results and Section 5 is the discussion. Section 6 is the conclusion with final remarks.

## 2. LITERATURE REVIEW

### 2.1. Governance models

According to the Organisation for Economic Co-Operation and Development (OECD, 2015), different models of corporate governance should be permitted. The governance principles issued by the OECD provide flexible yet robust benchmarks for this purpose. Users of these benchmarks can choose which corporate governance model they adhere to. It is further noted that there is no single correct governance model and that guidelines and rules about governance should be adapted to the realities they face (OECD, 2015). Governance models have primarily been defined as one- or two-tier systems, often called board systems (Thomsen & Conyon, 2019; Huse, 2007; Lekvall, 2014; Sjöstrand et al., 2016). Lekvall (2014) defined a third model as the Nordic model.

The one-tier model has been used in North America (Lekvall, 2014; Thomsen & Conyon, 2019), the United Kingdom, China, and Japan (Thomsen & Conyon, 2019), while the two-tier model can be found in Germany, Denmark, Norway, and Sweden (Thomsen & Conyon, 2019). According to Lekvall (2014), the Nordic model is used in the Nordic countries and shares similarities with the two-tier model. In some countries, companies can choose which model they support, such as Denmark (Thomsen & Conyon, 2019) and France (Millet-Reyes & Zhao, 2010; Thomsen & Conyon, 2019). Most companies in Denmark have opted for the two-tier model, while the one-tier model is more common in France (Thomsen & Conyon, 2019). However, the legislation of each country can influence this. There is consistency among the models in that they all have a general meeting (shareholders' meeting) at the top of their governance structure, which also elects the board (Lekvall, 2014; Thomsen & Conyon, 2019). The models, however, differ in many respects and will be further described below.

Within the one-tier model, the board is elected by shareholders (Lekvall, 2014; Thomsen & Conyon, 2019). The board hires managers, who are either selected from among the board members or outside the board (Thomsen & Conyon, 2019). There is only one board within the one-tier model, including executive and non-executive directors. The chairman and CEO are often the same person (Lekvall, 2014).

The two-tier model is in effect in countries where companies must have two levels of management (Thomsen & Conyon, 2019). Within this model, the supervisory board is elected by shareholders and is meant to oversee and supervise the management board (Lekvall, 2014; Thomsen & Conyon, 2019). The board acts as a supervisory body and is separate from the executive management, which holds almost all executive power (Lekvall, 2014). Board members do not sit on the executive management. In some cases, a minority of the board may be composed of members from the executive management (Thomsen & Conyon, 2019). According

to Lekvall (2014), it is impossible to sit on both boards simultaneously. Shareholders, however, have limited power within this model to influence company management (Lekvall, 2014). In the two-tier model, it is not the board's role to manage the company; it is the responsibility of the executive management. The board always has the role of approving all major decisions (Thomsen & Conyon, 2019).

According to Lekvall (2014), the Nordic model is closely related to the two-tier model and is often classified as such (Thomsen & Conyon, 2019). The model used in Sweden has often been described as a model where the division of responsibility and roles between different levels is clear and distinguishes the model from others (Carlsson, 2007). According to Lekvall (2014), the Nordic model differs from the one- and two-tier models in three ways, outlined below. Firstly, Lekvall (2014) considers that although shareholders elect the board at the general meeting within all models, the majority vote holds the final power within the Nordic model. The hierarchy is clear: the board reports to the shareholder meeting, and the executive management reports to the board. According to Lekvall (2014), a clear chain of command within the Nordic model between the levels represents a stricter hierarchy than in other models. According to Lekvall (2014), the second aspect is that the shareholders appoint the board, which is accountable to shareholders and is mandated to manage the company. However, shareholders can remove board members at any time during the term for no reason, which can ensure that board members give way to majority owners or a majority at the general meeting (Lekvall, 2014). Icelandic law stipulates that a shareholder meeting can remove board members at any time and elect a new board (Act respecting Public Limited Companies No. 2/1995). Thirdly, the difference between the Nordic model and other models, according to Lekvall (2014), lies in the clear separation between the executive management and the board. The board can hire and dismiss managers at any time. Lekvall (2014) asserts that this shows a strict hierarchy between the levels. Dominant shareholders within the Nordic model are given extensive authority to ensure the company is managed as it suits. Shareholders have power over both the board and the executive management, while shareholders within the two-tier model have limited powers over managers (Lekvall, 2014).

The Nordic countries, however, are considered to have different variants of the Nordic model (Lekvall, 2014). However, Sjöstrand et al. (2016) have found that the similarities between the countries outweigh the differences. In the Nordic countries, the regulatory framework is similar, and it is called soft and hard legislation. Moreover, shareholders in the Nordic countries have similar decision-making power, and power distribution is similar. The difference is considered minor, but where it manifests, it mostly relates to the laws and regulations of the countries. For example, it affects how the board is appointed and composed and whether the tier below should have an executive management or a single CEO. According to Sjöstrand et al. (2016), the Nordic model allows companies to create their own solutions. Governance can thus be

customized to suit each company. This flexibility is considered one of the main strengths of the Nordic model, as companies do not need to comply with standardized solutions that need to consider different ownership and corporate forms. Sjöstrand et al. (2016) believe that this allows the system to evolve and adapt naturally.

## 2.2. Nomination committees

Corporate governance codes often suggest that large companies establish board subcommittees (Huse, 2007). Appointing a subcommittee can focus on specific aspects of operations, which may be one way to make the board's work more targeted (Al-Absy & AlMahari, 2023; Grove et al., 2020). Subcommittees are usually composed of board members, not managers or other employees (Iannuzzi et al., 2023; Putra & Setiawan, 2024). It would not be considered good governance for managers or employees to be able to influence their terms through remuneration committees or how oversight over them is conducted (Thomsen & Conyon, 2019). Subcommittees are believed to add value to companies, especially those with larger boards and where independent directors are in the majority. In smaller boards where insiders dominate, subcommittees are considered less beneficial (Reeb & Upadhyay, 2010). The three most common committees are the audit, remuneration, and NCs (Huse, 2007).

These three types of committees have been researched over the years, but NCs have been the least studied (Huse, 2007; Kaczmarek & Nyuur, 2016; Ruigrok et al., 2006). NCs are the youngest of these three committees, and according to Huse (2007), they have been controversial within corporate governance. Despite this, governance guidelines recommend that companies establish such a committee (Huse, 2007), as seen in the governance guidelines in the Nordic countries (Committee on Corporate Governance, 2019; Securities Market Association, 2020; Swedish Corporate Governance Board, 2020). The Icelandic guidelines on governance are no exception (Iceland Chamber of Commerce, Nasdaq Iceland, et al., 2021), and NCs have been part of the guidelines since 2009 (Iceland Chamber of Commerce et al., 2009).

### 2.2.1. The creation of nomination committees

A clear line of authority within corporate governance spans three pillars of a company's organizational structure. These three are the general meeting, the board, and the executive management, as defined in the two-tier and Nordic models. Various committees are linked to different pillars of the organizational structure. However, NCs, which focus on the selection and composition of board members, are said to be one of the most important committees within the governance processes in the Nordic countries (Sjöstrand et al., 2016). NCs were introduced later than audit and remuneration committees are not as mature (Carson, 2002) and have been less studied (Kaczmarek et al., 2012).

Governance guidelines encourage companies to establish NCs to ensure a professional process in selecting board members (Carlsson, 2007). However,

companies have no legal requirements to establish such committees (Sjöstrand et al., 2016). Before the introduction of NCs, forming boards involved shareholders being responsible for nominating and electing the board (Carlsson, 2007). The CEO or chairman often played a key role in selecting new board members (Carson, 2002; Sjöstrand et al., 2016). According to Thomsen and Conyon (2019), shareholders nominating board members can impact the quality of boards if shareholders do not have sufficient information or the necessary knowledge to appoint competent board members (Thomsen & Conyon, 2019). Before the introduction of NCs, the process in Sweden involved the leading owner and chairman gathering the largest shareholders with a majority voting right to discuss board renewal. The process usually began with conversations three to six months before the general meeting, and the candidates agreed upon by the shareholders were then nominated at the general meeting (Carlsson, 2007). When NCs are not present in Icelandic companies, it is often within the chairman's remit to find board members. However, the largest shareholder often participates in the process, which happens informally (Sjöstrand et al., 2016). However, shareholders vote at the general meeting on the composition of the next board (Iceland Chamber of Commerce, Nasdaq Iceland, et al., 2021).

Shareholders appoint board members at the general meeting, and it is the responsibility of the shareholders to decide how the process is conducted; that is, they can establish an NC to manage the process. Rules for appointing NCs are usually shaped by governance guidelines with no legal requirements (Sjöstrand et al., 2016). If a decision is made to establish an NC, the process of selecting new board members can be determined by the composition of the shareholder group (Carson, 2002; Ruigrok et al., 2006; Sjöstrand et al., 2016). For instance, having one very large shareholder within the shareholder group can greatly influence the selection of new board members. It is less likely that companies with one major shareholder will establish an NC (Ruigrok et al., 2006).

NCs play an important role in governance when there are no dominant shareholders and ownership is more dispersed (Sjöstrand et al., 2016). Large companies are likelier to establish NCs (Carson, 2002; Ruigrok et al., 2006). Suppose a company has a dominant or a single main shareholder. In that case, this can reduce the importance of establishing an NC since the dominant shareholder often determines the board's composition (Sjöstrand et al., 2016). If a company has two or more significant shareholders, the discussion about board composition often happens informally and does not occur at meetings with the NC. In these cases, the role of NCs is to confirm and formally review shareholder proposals. In these instances, NCs have limited impact on the outcome and are often established only to meet the requirements set in governance guidelines (Sjöstrand et al., 2016). Having independent and external board members can affect whether companies operate NCs; companies with many independent board members are more likely to operate NCs (Ruigrok et al., 2006).

Establishing a separate NC can have certain advantages in appointing board members. Mainly, NC focuses on evaluating potential candidates where other board matters do not have a disruptive influence, such as issues discussed at board meetings (Hutchinson et al., 2015). Carson (2002) found that some companies see limited value in NCs if the understanding is that NCs only focus on selecting new board members and do not evaluate board performance. Governance guidelines in the Nordic countries include guidelines for the operation of NCs. These do not involve legal requirements but include a "comply or explain" rule. Companies can decide to follow the guidelines or explain how they deviate from them (Committee on Corporate Governance, 2019; Iceland Chamber of Commerce, Nasdaq Iceland, et al., 2021; NCGB, 2018; Swedish Corporate Governance Board, 2020). Companies can, therefore, fully implement the guidelines or decide to deviate from them to some extent. The board must, however, provide a detailed account of all deviations and to what extent the guidelines are not followed (Iceland Chamber of Commerce, Nasdaq Iceland, et al., 2021). In updated guidelines from the Iceland Chamber of Commerce from 2021, it is reiterated that an NC can either be under the board or shareholders. However, shareholders should appoint NCs and decide how they should be composed. It is also stated in an information booklet about NCs that it varies whether NCs established in the country are under the board or shareholders. (Iceland Chamber of Commerce, Nasdaq Iceland, et al., 2021).

### *2.2.2. Positioning of nomination committees in a governance setting*

NCs play an important role, according to Zhang (2008), and their independence is crucial. According to American studies on NCs, introducing these committees can reduce CEOs' influence on board members' selection process. However, Shivdasani and Yermack (1999) argue that having an NC only shifts the problem, meaning the CEO might try to influence the nomination committee instead of the board. The way NCs are established and whom they serve, whether shareholders or as a board subcommittee, varies between countries and governance structures. In Sweden, it is the responsibility of the general meeting to appoint the NC. They are accountable to and under the general meeting and are composed only of owner representatives (Carlsson, 2007). NCs, along with audit and remuneration committees, are said in various studies to be subcommittees of the board (Appiah & Chizema, 2016; Carson, 2002; Kaczmarek et al., 2012; Ruigrok et al., 2006). However, Lekvall (2014) maintains that subcommittees of boards in the Nordic countries should only be composed of board members and that the board is responsible for their activities.

Research findings on listed companies in North America, where the one-tier model is used, show that NCs are fully independent if "grey" directors (i.e., directors who are neither independent nor insiders, such as the CEO and their subordinates) do not sit on NCs and do not participate in

the nomination process. NC independence is crucial as oversight of the board is better when both NC and the board are independent (Guo & Masulis, 2015). An independent NC can better determine the composition of those likely to be appointed to the board (Eminet & Guedri, 2010).

Ruigrok et al. (2006), in their study of listed companies in Switzerland, found that NCs are often called “off-board” committees. Nevertheless, they consider that NCs are technically subcommittees of the board since their decisions need to be ratified by the board. Thus, they are not independent committees that report directly to shareholders at the general meeting. In Sweden, the Small Shareholders Association has been against following the Anglo-Saxon method, where the NC is under the board. Carlsson (2007) asserts that such an arrangement violates corporate governance principles. He argues that NCs need to be above the board in the governance structure (Carlsson, 2007). Other studies in Sweden show that NCs can enable minority shareholders to express their views, with the committees intended to be a forum for shareholders to apply the consensus principle. The NC is elected at general meetings, allowing minority shareholders to influence the outcomes. However, some studies show that large shareholders usually achieve a dominant position in NCs (Poulsen et al., 2010).

There is a difference between the Nordic countries in how NCs are appointed, as seen in Table I below. In Sweden and Norway, general meetings elect members of NCs or decide the main principles on how they are appointed. In these two countries, NCs are not subcommittees of the board (Sjöstrand et al., 2016). Swedish NCs are shareholder committees (Poulsen et al., 2010). Shareholders appoint NC members (Swedish Corporate Governance Board, 2020; Poulsen et al., 2010). In Norway, NCs are also shareholder committees elected by shareholders at the shareholder meeting (NCG, 2018). In Denmark, nominations for board positions are the board's responsibility (Sjöstrand et al., 2016). According to the guidelines there, NCs are subcommittees of the boards. They are established by the board and are meant to carry out work that the boards decide upon. A majority of NC members must be independent. The guidelines do not specify whether NCs should only be composed of board members, as is stipulated regarding audit committees (Committee on Corporate Governance, 2019).

Whether NCs should be board or shareholder committees' subcommittees is a choice in Finland. If they are a shareholder committee, it is called the “Shareholders' Nomination Board” (Securities Market Association, 2020). In recent years, two-thirds of NCs in Finland have been board subcommittees, while one-third have been appointed to shareholder committees (Sjöstrand et al., 2016). As a subcommittee, NC should be established by the board and composed of board members. However, it is stipulated that most members must be independent of the company. NC, as a shareholder subcommittee

appointed by the general meeting, consists of either the largest shareholders or individuals they nominate, whether they are board members. The guidelines do not specify which method is considered a more suitable option. However, most members in both types of committees should be independent of the company, and individuals from the executive management should not be appointed to NCs (Securities Market Association, 2020).

The Icelandic guidelines on corporate governance do not specify whether NCs should be subcommittees of the board or report directly to shareholders. It is only stipulated that shareholders decide how NCs are appointed (Iceland Chamber of Commerce, Nasdaq Iceland, et al., 2021). When NCs first became part of the governance guidelines in Iceland, the section about them was presented as a subsection in the chapter on board subcommittees. It stated that the board could decide whether such a committee is established (Iceland Chamber of Commerce et al., 2009). When the guidelines were updated in 2012, NCs were still defined as subcommittees of the board. However, they were also supposed to consider the interests of all shareholders (Iceland Chamber of Commerce et al., 2012). When the guidelines were issued in 2015, the change was to move the section about NCs and place it under the chapter about shareholders and shareholder meetings (Iceland Chamber of Commerce et al., 2015). It was further clarified that NCs should be under shareholders and not as a subcommittee of the board, as previous guidelines had advised (Iceland Chamber of Commerce et al., n.d.). According to a published text by Ólafur Arinbjörn Sigurðsson (n.d.), a lawyer at LOGOS, this change does not exclude that NCs can be subcommittees of the board as shareholders are to establish the committee and can thus decide whether it is a subcommittee of the board or under the shareholders. The main changes in the guidelines issued in 2021 are primarily regarding NCs but also include sharpened provisions on the independence of board members that the board of a company should set a policy on sustainability as well as promote diversity in the composition of the board, executive management, and among managers in general, and finally that the board should publish an overview of non-financial information (Iceland Chamber of Commerce, Nasdaq Iceland, et al., 2021).

Foreign studies show that it varies between countries whether NCs are appointed as board subcommittees or report directly to shareholders (Poulsen et al., 2010; Sjöstrand et al., 2016). Committees are relatively new in Iceland, so it is important to capture the views of different stakeholders on how they should be appointed within Icelandic governance and the reasons different stakeholders have for their views. To shed light on how best to arrange the appointment of NCs in Iceland, a research question was posed to answer whether NCs should be under shareholders or be subcommittees of the board according to different stakeholders.

**Table 1.** Structure of nomination committees in the Nordic countries

<i>Key variables</i>	<i>Iceland</i>	<i>Denmark</i>	<i>Finland</i>	<i>Norway</i>	<i>Sweden</i>
Shareholders committee or board committee	Shareholders to decide	Board committee	Either a board committee or a shareholders committee called a Shareholders' Nomination Board (SNB)	Shareholders committee	Shareholders committee
How many members in NC	At least three members, or two members if both are independent	Not included	At least three members if it is a board committee, no requirements if it is an SNB	Not included	At least three members
Board members in the NC	Board members can be members of the NC if they are not in the majority	Board members can be members of the NC	Optional	Only one board member is allowed in the NC at each time, and only if he is not asking for re-election to the board	Board members can be members of the NC if they are not in the majority
Independence	Majority independent of the company and day-to-day management	Majority independent	Majority independent of the company	Majority independent of the board and executive personnel	The majority independent of the company and at least one member should be independent of the largest shareholder
Reference	Iceland Chamber of Commerce, Nasdaq Iceland, et al. (2021)	Committee on Corporate Governance (2019)	Securities Market Association (2020)	NCGB (2018)	Swedish Corporate Governance Board (2020)

### 3. METHODOLOGY

It was considered beneficial to use convergent parallel mixed methods design (Johnson et al., 2007) to gain more insight into Icelandic NCs, their role, and who should be appointed as NC members. The qualitative data was collected through interviews with stakeholders. Quantitative data was gathered from an online survey conducted twice over three years to gain further insight into how the principal stakeholders feel are necessary qualities of NC members. The results of both approaches were then compared to examine the coherence of the research question, and descriptive statistics and thematic analysis in discourse support this. This chapter will cover the research methods and how pertinent data was collected and processed.

#### 3.1. Qualitative methodology

Qualitative data were collected by conducting thirteen semi-structured interviews. The semi-structured interview was partly based on a study by Clune et al. (2014). Other questions were constructed based on previous discussions with various stakeholders attending an event for stakeholders of listed companies hosted by the Iceland Chamber of Commerce.

The semi-structured interview guide was divided into three parts. The first part included background questions for participants. The second part included questions on the role and structure of NCs and the pros and cons of having an NC. The third part included questions on NCs' work processes. Two versions of the guide were constructed, one for NC members and one for shareholders and board members.

Each interview lasted between 30 and 90 minutes, averaging 63 minutes. The interviews were conducted face to face, except for two online due to the COVID-19 pandemic. The participants were informed about the research and the purpose of the interviews. Full confidentiality and anonymity were assured; all interviewees (with one exception) permitted recording of the interviews and agreed to be quoted. Notes were taken during the interview that were not recorded. NC members, board members of registered companies, and investors were interviewed to achieve the best possible understanding of the different viewpoints. Interviewees were selected based on their experience with NCs. The interviews were conducted in February and March 2020, except for two interviews that were conducted via teleconferencing equipment in June 2020. The interviewees were contacted by email, where the aim of the study was presented. A list of participants is found in Table 2.

**Table 2.** Descriptives of 12 semi-structured interviews

<i>Identifier</i>	<i>Gender</i>	<i>Role</i>	<i>Date of interview</i>
1.N	Female	NC member	March 3, 2020
2.N	Female	NC member	February 26, 2020
3.N	Female	NC member	February 26, 2020
4.N	Female	NC member	February 4, 2020
5.N	Male	NC member	February 4, 2020
6.N	Female	NC member	February 3, 2020
7.N	Female	NC member, board member, consultant	June 4, 2020
8.N-B	Male	NC member, board member	February 28, 2020
9.N-B	Male	NC member, board member	February 5, 2020
10.B	Male	Board member	February 4, 2020
11.I	Female	Institutional investor	February 4, 2020
12.I	Male	Institutional investor	February 5, 2020
13.C	Male	Consultant	June 3, 2020

The participants were given a number and a reference to their role. For example, the first participant, an NC member, has the number 1.N. Participants who are NC members and board members of the same company are referenced with "N-B". For example, participant number eight is referred to as 8.N-B. Investors are given an "I", while the consultant is marked with a "C".

After the research data was collected, the interviews were transcribed. Grounded theory was used to analyze the data systematically (Strauss & Corbin, 1998). The transcribed interviews were coded, with coding used to assign shorthand designations to different aspects of the data so the researcher could quickly access specific data items. Open coding was used, which means that important points or phrases are marked and done to analyze the data further (Merriam & Tisdell, 2016). The data was coded using the program NVivo, where themes and subcategories were defined according to the nature of the questions and the categorization of the interviewees' main motivations. All interviews were coded by one researcher and reviewed by two co-researchers to ensure the internal validity of the coding.

### 3.2. Quantitative methodology

In cooperation with the Iceland Chamber of Commerce, a quantitative questionnaire was 2020 sent to 542 people, all shareholders in listed companies, NC members, board members of listed firms, or representatives of the 300 largest Icelandic companies. The total number of participants was 138, and the response rate was 25%. In 2023, the survey was conducted again, and the total number of participants was 165.

The first survey's questionnaire was divided into four parts. The first part contained background

questions regarding age, gender, education, and whether the participants were NC members, board members, and/or shareholders. The next part contained questions from the Chamber of Commerce about guidelines on governance. The third part was about the NCs, how they should be composed, who should sit on them, and how satisfied the participants are with the NC committees. The last part was only for current or previous NC members.

The second survey's questionnaire was constructed similarly, except it did not include a chapter from the Chamber of Commerce. In the second round, a few questions on NCs were excluded, but instead, questions on board self-assessment were included.

The participants were divided into four groups, as shown in Table 3. The first group was NC members on NC committees when the survey was conducted. The second group is board members in listed companies. The third group is shareholders, both institutional investors and private investors. The fourth and final group are those on the boards of unregistered companies, not NC members and not shareholders.

As shown in Table 4, 66% of the 138 participants were male, and 63% were 50 years old of age or older.

**Table 3.** Survey participants: Stakeholder groups

Role	2020		2023	
	Quantity	%	Quantity	%
NC members	20	14	40	24
Board members of listed companies	16	12	52	32
Investors in listed companies	62	45	42	25
Others	40	29	31	19
Total	138	100	165	100

**Table 4.** Survey participants: Age and gender

Participants	Variable	2020		2023	
		Quantity	%	Quantity	%
Gender	Female	46	33	57	34.5
	Male	91	66	107	65
	Other/No answer	1	1	1	0.5
Age	39 years old and younger	16	12	8	5
	40-49 years old	36	26	45	27
	50-59 years old	55	40	65	39
	60 years old or older	31	23	47	29

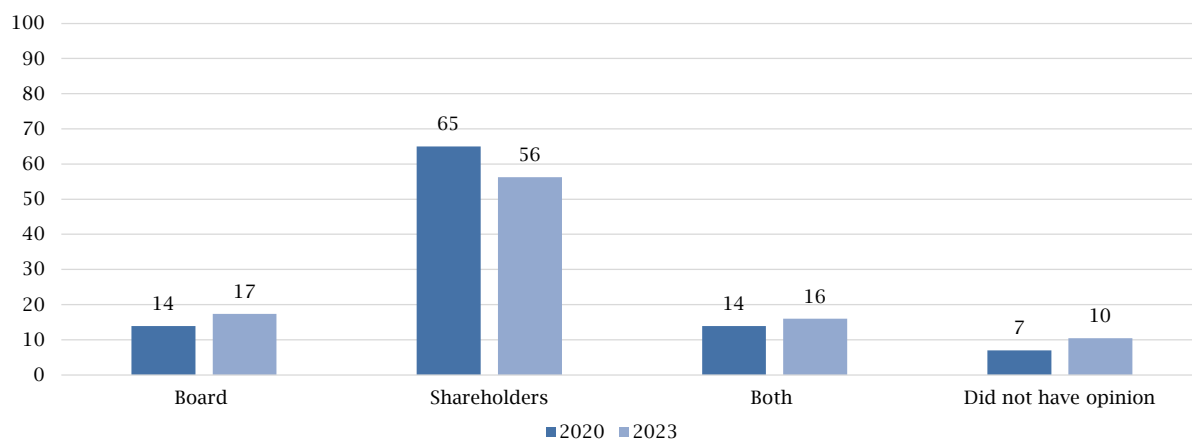
## 4. FINDINGS

The results are presented in a way that first reports the survey findings, followed by a detailed explanation of the reasoning that emerged from the analysis of the semi-structured interviews. The results shed light on the attitudes of various stakeholders toward how it is desirable to organize NCs within the governance of listed companies in Iceland.

### 4.1. The view of different stakeholders

Survey participants were asked whether NCs should report to shareholders or the board. The results from 2020 show that 65% of participants believed

NCs should report to shareholders. Conversely, 14% of participants think that NCs should be subcommittees of the board, and another 14% believe that they should report to both the board and shareholders. The results from 2023 show slight change, although a majority still say that NCs should be shareholders committee as 56% of participants say it should be shareholders committee while 17% say it should be a board committee. The results can be seen in Figure 1.

**Figure 1.** Survey results: NFPs should be governed by

When the results from 2020 and 2023 were analyzed according to different stakeholder groups, Table 5 revealed no significant difference. Over 60% of shareholders, NC members, and board members believe NCs should report to shareholders.

Meanwhile, 55% of those in the category “Others” believe that the committees should report to shareholders. A substantial majority of NC members, 85%, believe they should report to shareholders.

**Table 5.** NCs as a subcommittee of the board or shareholders: Results by groups and years

NCs	Board subcommittee	Shareholders committee	Both	Impartial	Total
<b>2020</b>					
NC members	1	17	2	0	20
%	5%	85%	10%	0%	100%
Board members in listed companies	4	10	1	1	16
%	25%	63%	6%	6%	100%
Shareholders of listed companies	8	41	9	4	62
%	13%	66%	15%	6%	100%
Others	6	22	7	5	40
%	15%	55%	18%	13%	100%
<b>2023</b>					
NC members	3	25	5	7	40
%	8%	62%	12%	18%	100%
Board members in listed companies	10	23	10	9	52
%	19%	44%	19%	17%	100%
Shareholders of listed companies	5	21	12	4	42
%	12%	50%	28%	10%	100%
Others	7	12	0	12	31
%	22%	39%	0%	39%	100%

Participants in the surveys were also asked who should elect the NC. As seen in Table 6 and Table 7, 58% of participants in 2020 believed that shareholders should elect it, while only 7% said the board should elect it. In total, 22% of participants said that shareholders should appoint the majority of NC members, and 10% chose the option “Others”. The survey from 2023 shows that there is still a majority that says that shareholders should appoint NC members, although there is an increase in the number of those who say that the board should appoint them.

**Table 6.** Survey results: NC members should be elected by

Stakeholders	2020	2023
Board	7%	14%
Shareholders	58%	54%
Shareholders should select the majority of NC members but the board should select one member	22%	24%
The board should select the majority of NC members, but the shareholders should select one member	4%	4%
Others	10%	4%

#### 4.2. Different approaches from stakeholders' perspectives

In the Icelandic guidelines on corporate governance, it is not specifically stated whether NCs should be appointed as a subcommittee of shareholders or a subcommittee of the board. In the 2015 guidelines from the Chamber of Commerce, NCs are first discussed in the section on shareholders and shareholder meetings. In contrast, in older guidelines, they were discussed in the section on board subcommittees (Iceland Chamber of Commerce et al., 2012). Eleven out of thirteen interviewees had opinions on whether NCs should be a subcommittee of shareholders or a subcommittee of the board, and they provided various reasons that are categorized and analyzed in three subsections below.

Individuals and stakeholders have divided opinions on this issue. One interviewee noted the need to decide whether NCs should report to shareholders or the board. At the same time, another believed it necessary to allow different methods and thus enable the NCs to evolve. Three subsections in Table 7 will address different perspectives and reasons.



Table 7. Shareholders committee or board committee: Interviewee's response

Interviewee	Shareholders committee or board committee	Voted by shareholders or acts in the interest of the shareholders	Independent committee	Supervision of the committee
1.N	The interviewee did not comment on this topic			
2.N	Shareholders	NC works for and on behalf of shareholders.		
3.N	Shareholders		NCs should be a neutral entity.	
4.N	Shareholders	Elected by shareholders	NCs are under the shareholders, and the channels of communication must be such that there is no need to communicate with the board or CEO.	NC operating rules should be approved at the shareholder meeting.
5.N	Shareholders	Elected by shareholders and shareholders should govern and influence NCs.		
6.N	Shareholders	Shareholders have decision-making power at the shareholders' meeting.	Question concerning NC independence if it is a subcommittee of the board as it is then too close to the board.	
7.N	Shareholders	Shareholder committee as it operates for the shareholders.	NC independence is very important, especially if the NC is to operate as a subcommittee.	NC should be higher in the organizational hierarchy than the board and submit proposals directly to shareholders. If it is placed under the board, then we are moving into some American system that is moving power away from shareholders to boards.
8.N-B	The interviewee briefly mentioned the theme without expressing his opinion.		NC can be independent, although it is linked to the board.	
9.N-B	Board	NC does not have to be a shareholder committee, even though a majority of committee members are elected by shareholders.	Must be some connection with the board.	Not logical for the committee to report to shareholders while the board oversees its operations. The board should have oversight and supervision of the NC.
10.B	Shareholders	This is a decision for the shareholders, not a board decision.	The NC should not have other interests to look after.	A more logical arrangement is that the NC is a shareholder committee.
11.I	Board	Shareholders have to elect a majority of committee members.	There has to be a link between the NC and the board to ensure the monitoring of NC work.	Necessary to have some connection with the board, and the shareholders are unaware of the NC work progress.
12.I	Impartial – but feels that shareholders should supervise NCs.			Shareholders should ensure they 'work according to acceptable operating rules.
13.C	Board, but both can work.	The shareholders can elect committee members despite it being a board sub-committee.	Did not have an opinion on NC independence.	Little tradition in Iceland for any governance units other than the board to report directly to the shareholder meeting.

#### 4.2.1. Committee members elected by shareholders

According to interviewees, the main reason NCs should be under the control of shareholders is that the entire NC is elected by the shareholders of each company at the annual general meeting each year and operates in the interest of shareholders. Six out of thirteen interviewees believed that NCs should be a shareholder committee because shareholders elect their members or act on behalf of shareholders. Five of these six were NC members, while the sixth was a board member. Three other interviewees agreed that shareholders should elect NCs. These were board and NC members, consultants, and investors, but they all believed NCs should be under the board's jurisdiction. Looking at those interviewees who are members of NCs, there was

a consensus among them, as shown in Table 7, that it would be best for NCs to be directly under the shareholders. Two interviewees (4.N and 5.N) mentioned that NCs should be a shareholder committee since the shareholders elect it. Interviewee 5.N pointed out that shareholders should elect the members, and shareholders should govern and influence the committee.

Interviewee 7.N was also adamant that NCs should be a shareholder committee as it operates for the shareholders. It should be higher in the organizational hierarchy than boards and submit proposals directly to shareholders, not to the board. It also emerged in the interviews that NCs should work for the shareholders, as interviewee 6.N pointed out that it should be a shareholder committee since shareholders have decision-making

power at the shareholder meeting. Interviewee 2.N also stated: *“The way I see it... we are working for the shareholders. I think it is very important”* (personal communication, February 26, 2020).

Other interviewees were not as unanimous that NCs should be under the shareholders. Interviewee 10.B, a board member, agreed with the NC members and said: *“I think this should be under the shareholders... this is a decision for the shareholders this is not a board decision...”* (personal communication, February 4, 2020). Interviewees 9.N-B and 11.I also agree that shareholders should elect a majority of NC members. However, interviewee 9.N-B said this does not mean NCs should be a shareholder committee. Interviewee 13.C agreed with him and said: *“It is, of course, possible to structure it so that although the committee is a subcommittee of the board, the members can still be chosen at the shareholder meeting”* (personal communication, June 3, 2020). Interviewee 9.N-B further said:

*“...when the NC was established, it was introduced to the shareholders that they would elect the committee despite being a board subcommittee. It was also promised that the process would be transparent and that the organization would be reviewed as needed. The shareholders approved this arrangement, although one committee member had certain questions about it before he approved it”* (personal communication, February 5, 2020).

#### *4.2.2. Independence of nomination committees from the board*

The next subsection discusses the independence of the NCs. Nine out of thirteen interviewees mentioned independent committees during the interviews. The results show that most of those who believe NCs should be shareholder committees, where the independence of NCs is important, are NC members. For example, interviewee 7.N said that NC's independence is very important, especially if NCs are to operate as subcommittees. Interviewee 6.N agreed: *“If you are under the board, then I think you might be too close... you know, then there is a question about this independence, right”* (personal communication, February 3, 2020). Interviewee 3.N said NCs should be a *“neutral entity”* (personal communication, February 26, 2020). According to interviewee 4.N, it must be clear that they should be independent and under the shareholders: *“...the committee is under the shareholders so then the channels of communication and everything else must be such that there does not need to be, you know, in communication with either the board or the CEO...”* (personal communication, February 4, 2020).

Looking at the perspectives of board members, there is no consensus among them on these issues; one of them believes NCs cannot have other interests to look after and expressed the opinion that NCs should be under the shareholders. Interviewee 10.B said that they should not have an interest in looking after anywhere, but Interviewee 8.N-B believed that board members could be as independent as NC members in the selection of board members:

*“It's not like the NCs are somehow a brand-new invention on earth where there are independent representatives. The board is also ambitious people*

*who mean well, and the shareholders could put this on the board's agenda to develop a reasoned proposal”* (personal communication, February 28, 2020).

According to interviewee 13.C too much emphasis is placed on the independence of the NC, and the board cannot participate in this process. Even though the process had previously been the board's responsibility and in some cases only within the purview of the chairman, it was not *“altogether bad”* (personal communication, June 3, 2020). Investor (12.I), on the other hand, was open to different approaches in this regard, saying he had no opinion on NC independence; he wants to allow the committees to evolve and participate in that evolution.

#### *4.2.3. Oversight of nomination committees*

The third and last subsection addresses the logical structure of NCs in Iceland. When Interviewee 13.C was asked whether NCs should be a subcommittee or a shareholder committee, the answer was: *“Both are possible, but there is little tradition in Iceland for any governance units other than the board to report directly to the shareholder meeting, so it maybe does not quite fit into our structure”* (personal communication, June 3, 2020). He also stated that it fits better into our system, in terms of Icelandic corporate law, for NCs to be board subcommittees rather than reporting directly to shareholders. Shareholders only meet perhaps once a year, which is not a venue for effective oversight of NCs work. This becomes easier if the NC reports directly to the board. Interviewee 7.N disagreed with this and said: *“If it is going to operate on behalf of the board, then it is placed under the board, then we are moving into some American system that is moving power away from shareholders to boards...”* (personal communication, June 4, 2020). Interviewee 10.B agreed that NCs being a shareholder committee is a more logical arrangement.

Interviewee 9.N-B thought that NCs should be a subcommittee of the board and believes it is not logical for the NC to report to shareholders while the board oversees its operations. When NC is a subcommittee of the board, the board can also assign it specific tasks. Interviewees 9.N-B and 13.C agree that NCs should be subcommittees of the board to ensure oversight and supervision of NCs. Interviewee 9.N-B said that as a board member, he believed NCs should be a subcommittee of the board because they did not know who else should direct NC's work. Interviewee 13.C also said: *“If it is a subcommittee of the board, then it is the board's responsibility to set operating rules for the committee... or allow them to set its own operating rules and review them as necessary”* (personal communication, June 3, 2020). He also believes it is important to have some oversight of NCs: *“... having some NC that... is elected by someone at the annual meeting and then... runs wild and sets its own rules and I don't know what I don't know if that is better”* (personal communication, June 3, 2020). Investor (11.I) believes NCs should be subcommittees of the board since they should be closer to the board where shareholders are a more *“fluid force”* (personal communication, February 4, 2020).

According to the interviewees, if the NCs are subcommittees of the board, it does not mean that they should only be composed of board members. Interviewees 9.N-B, 11.I, and 13.C, who come from different backgrounds, mentioned this in their interviews. Interviewees 11.I and 9.N-B considered it necessary to have some connection with the board, and therefore, NCs should be a subcommittee of the board. Interviewee 11.I, a shareholder representative, believe this connection is necessary for overseeing the work of the NCs since the shareholders are unaware of how NCs work progresses. Although Interviewee 12.I think companies should be able to choose whether NC is under the shareholders or the board, the shareholders should ensure that they “*work according to acceptable operating rules*” (personal communication, February 5, 2020). Interviewee 4.N also said that NC operating rules should be approved at the shareholder meeting.

When the interviewees particularly considered the importance of the NC being monitored and supervised and that the operating rules should be clear and enforced, more interviewees believed that NCs should be subcommittees of the board rather than reporting directly to the shareholders. This way, NCs are more closely monitored, and the board is better suited than the shareholders to oversee them. However, when looking at other factors, such as the independence of committee members from the board and who constitutes NCs, more interviewees leaned towards the NCs reporting directly to the shareholder meeting rather than the board.

When the three subsections are taken together, there are very divided opinions on whether NCs should report to the shareholders or be a board subcommittee. The NC members who discussed this topic agreed that NCs should report to the shareholders, except for those interviewees who also held board positions. Another nomination and board member thought NCs should report to the board. However, the interviewee, who only has a seat on the board, agreed with the NC members that NCs should report to the shareholders. The two institutional investors disagreed while the consultant believed NCs should rather report to the board.

## 5. DISCUSSION

The study provides an overview of the perspectives of various stakeholders on whether NCs in Iceland should be appointed as subcommittees of boards or report directly to shareholders. The authors are unaware of any previous research into the structure and operation of NCs in Iceland. The findings illuminate that, according to most respondents and participants in the survey, NCs should report to shareholders regardless of stakeholder groups. This conclusion is similar to those drawn by Carlsson (2007) and Lekvall (2014). Furthermore, the results show that most stakeholders prefer NC members to be elected by shareholders, as found in the research of Carlsson and Lekvall.

In Iceland, as well as in other Nordic countries, the corporate governance structure of companies mostly aligns with the two-tier model or the Nordic model. Shareholders are at the top level and appoint a board, which then appoints and supervises

the executive management (Lekvall, 2014; Thomsen & Conyon, 2019). When an NC is formed, there are differing opinions on where it should be placed within this structure, whether under shareholders or the board. Various studies have suggested that they should be a subcommittee of the board (Appiah & Chizema, 2016; Carson, 2002; Kaczmarek et al., 2012; Ruigrok et al., 2006), while research in the Nordic countries has concluded that it is more successful for the NC to report to shareholders (Carlsson, 2007; Lekvall, 2014). The results of this research on Icelandic conditions follow the Nordic findings. Survey results were definitive across stakeholder groups, suggesting that the NC should report to shareholders. Although there are mixed opinions among the study’s respondents, most believe the NC should be a shareholder committee. The main arguments for NCs reporting to the company’s board were that the board could better supervise the activities of the NC than shareholders. This aligns with the study by Ruigrok et al. (2006), which suggests that even though an NC is not a board committee, it is technically a subcommittee of the board since the board needs to approve NC decisions and it never directly contacts shareholders. Therefore, if the NC reports to shareholders, its supervision should be ensured, but several respondents believed that the board is better suited to provide this oversight than shareholders.

The findings on the views of various stakeholders indicate that the NC should be elected by shareholders, at least a majority of the members. Although most respondents think this means the NC should be a subcommittee of shareholders, not everyone agrees. Compared to other Nordic countries, NCs in Norway and Sweden are elected by shareholders and report to them (Sjöstrand et al., 2016). Lekvall (2014), on the other hand, found that if NCs are subcommittees of the board, they should be composed of board members. This is consistent with the two Icelandic NCs, composed of three board members and are both subcommittees of the board. This arrangement is also in place in Denmark, where NCs are subcommittees of the board and are elected by the board (Sjöstrand et al., 2016). Both paths are viable in Finland, and an NC is a subcommittee of boards or shareholders.

## 6. CONCLUSION

The findings suggest that when deciding whether an NC in Iceland should be a shareholders committee or a board committee, both perspectives could find a pathway in Iceland. However, most lean towards the NC being a shareholders committee instead of a board committee. The findings also show that most shareholders believe NCs should be shareholders committees. The authors believe that results should specifically be given some thought as the shareholders are the ones who hold ownership of the companies. This research shows that there are different opinions regarding this subject. Therefore, the results can help companies and their shareholders look at the different perspectives and decide how they want their NC to be structured. This research can benefit both the Icelandic market and other countries when deciding if NCs should be a board committee or shareholders committee and different perspectives of various stakeholder groups.

The authors also feel that these results can be used to provide clearer guidelines to shareholders and companies. Corporate governance guidelines are not mandatory in Nordic countries (no formal regulatory regime intervenes on this matter), as companies can decide if they comply with them or explain why they don't comply. Therefore, corporate governance guidelines could encourage companies to indicate in their corporate governance statements or Procedures for NCs if the NC is a shareholder or a board committee and why they are structured in that way. With that, their shareholders would be given more information on the structure, and then maybe more consideration would be given to how to structure them.

Since NCs in Iceland are relatively new, this research provides important insights into the ongoing fermentation of views and experiences of different parties regarding who the committees should report to, a topic that has not been previously researched in Iceland. The study's main limitation is the high proportion of NC members among the respondents. When data was collected, the focus was on gathering information about the operation of NCs, explaining the higher proportion of this group among the respondents. Results show greater consensus among the opinions of NC members than other respondents that they should report to shareholders. The view of shareholders and board members was unequivocal if the survey results from 2020 are considered, where 66% of shareholders and 63% of board members believe that the NC

should report to shareholders. In 2023, 50% of shareholders and 44% of board members believe NC should be a shareholders committee. Comparing the overall results of the 2020 and 2023 surveys, there is still a majority for NC to be a shareholders committee instead of a subcommittee of the board, and the shareholders should vote for all or a majority of NC members. Thus, the overall results indicate that NCs should preferably report to shareholders rather than the board, according to stakeholder opinion. However, opinions among respondent groups of shareholders and board members are divided.

Looking to the future, the research could analyze attitudes towards NCs and their work on a broader scale than is done here and further investigate the views of different stakeholder groups. Additionally, NCs' processes and operations could be further analyzed. It would also be interesting to investigate who should sit on NCs, especially whether board members should have seats. It would be very interesting to research the experience of board members who have joined boards both after being nominated by NCs and not and to compare these experiences.

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