

# NOMINATION COMMITTEES IN ICELAND AND NORDIC COMPARISON: AN OVERVIEW

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## Abstract

Nomination committees are becoming increasingly popular. A nomination committee, or a nominating board, is a group or committee responsible for selecting and nominating candidates for a company's board of directors. The primary purpose of a nomination committee is to identify and recommend qualified individuals who can effectively fulfill the responsibilities of the positions in question. Still, nomination committees' roles and work processes have not been much researched. Among those issues yet not solved is whether selection practices will be more professional and transparent by the existence of nomination committees. Nonetheless, according to guidelines on good corporate governance, there are existing arguments for how beneficial nomination committees can be for good governance practices. This research compares and presents similarities and differences regarding nomination committees in the Nordic countries. The Nordic countries, being similar in many ways, have not all taken the same path regarding nomination committees. Hence, it makes an interesting comparison study. Guidelines for governance are similar and, in all essentials, comparable

to what is happening in the Nordic countries. Therefore, it must not be forgotten that companies can deviate from the guidelines' recommendations as their circumstances require. It can be assumed that good governance, including nomination committees, is one of the things that companies should adopt more and more if considering the development in other countries, e.g., the Nordic countries. The activity of foreign investors has also led to jumps in the development of governance practices.

## 1. INTRODUCTION

The primary role of nomination committees, according to the guidelines on corporate governance, is to nominate individuals or groups to sit on the board. Their purpose is to create a platform for presenting candidates for the board and assessing the suitability of individual candidates to carry out their roles, ensuring that the group running for the board has sufficient breadth in terms of knowledge, experience, and background, as well from the company's policy, needs and activities and to ensure that there are a sufficient number of individuals of both genders (Ruigrok et al., 2006). It is also their role to assess the independence of prospective directors by the provisions of the relevant guidelines on governance (Eminet & Guedri, 2010). This implies a regular assessment of the skills and capabilities of the board and what new skills and capabilities are required given the board's environment, the corporation's risks, and required skills for the upcoming few years, given its strategy and environment (Hutchinson et al., 2015). Also, in many places, the nomination committee and the board chair are jointly tasked with performing an assessment of board and individual board assessment (Sjöstrand et al., 2016).

With the appointment of nomination committees, a straightforward arrangement is established for the nomination of directors at the annual general meeting of companies, e.g., creates conditions for shareholders to make informed decisions. It is possible to nominate more individuals than the number of board seats elected and to be able to consider views on a diverse composition, the nomination committee may propose two or more lists of directors. Also, some board members may directly represent the institutional shareholders' specific interests in companies essentially controlled by institutional investors. Conflicts emerge when the interests of stakeholder groups are not appropriately balanced or harmonized. Shareholders appoint board members, usually outstanding individuals, based on their knowledge, skills, and ability to make good decisions. Once a board has been formed, its members face conflicts of interest between stakeholders and the company, between different stakeholder groups, and within the same stakeholder group. When a board's core duty is to care for stakeholders, such as shareholders, all rational and high-level decisions are geared to favor that particular group. However,

the concerns of other stakeholders may still be recognized. Board members must address conflicts responsibly and balance the interests of all individuals involved in a contemplative, proactive manner. Thus, nomination committees should consider the interests of all stakeholders, even when the shareholders elect them.

Research indicates that the existence and independence of nomination committees increase the likelihood of appointing active directors who are more likely to protect the interests of all shareholders. Companies are also said to be able to benefit from the experience of those who sit on nomination committees and have previously participated in the recruitment process, in addition to which the process can contribute to the further participation of owners. A special nomination committee, instead of, e.g., board members handling the election process, can ensure that the committee only has the task of appointing board members and does not perform general board duties simultaneously. However, the committees have also been criticized. In Iceland, there have been questions about whether shareholders can go against the proposals of nomination committees, questions concerning the mandate of nomination committees, their costs, and whether they should be sub-committees governing or reporting to shareholders, to name a few.

## **2. REVIEW OF THE LITERATURE: COMPOSITION OF NOMINATION COMMITTEES**

The corporate governance guidelines in the Nordic countries contain similar views and arguments as to why it might be desirable for a board member to sit on a nomination committee. The Norwegian guidelines state in the notes that account is taken of the fact that elected directors of a company with experience of board membership have an understanding of the company's position. In Sweden, it has been considered that the chairman of the board is, to a large extent, the primary source of information for the nomination committee on the company's position and future strategy, thus defining the conditions prospective board members must meet.

The guidelines for nomination committees in the Nordic countries differ regarding whether board members should sit on nomination committees. The Swedish guidelines are comparable to the Icelandic ones, as it is assumed that board members can sit on a nomination committee if they are not a majority of the committee members. According to the Danish guidelines, board members can sit on the committee, and the committee members can all be board members. However, the committee is also under the board (Committee on Corporate Governance, 2020). The same applies to the guidelines for nomination committees in Finland; if they are part of the board, they should only be appointed by the board members (Securities Market

Association, 2020). If, on the other hand, the committee reports to shareholders, the board members shall not have a seat on it.

The guidelines on governance state that the committee shall evaluate prospective board members based on competence, experience, and knowledge, in addition to the points of view that are otherwise discussed in the guidelines on the size and composition of the board. The committee shall also utilize the results of the board's performance evaluation regarding its composition and the competence of the board members. The nomination committee's role is to assess prospective board members' independence and ensure gender ratios in the company's board. According to the guidelines, the committee's proposals shall be based on this assessment. In all its work, the committee shall consider the overall interests of the company's shareholders, and care shall be taken to ensure that the individuals nominated by the board as a whole have sufficient knowledge and experience to carry out their roles. To consider views on the diverse composition of the board, there is also the possibility that the nomination committee submits proposals for two or more lists of board members.

The guidelines on governance in Iceland go further in outlining what should be stated in the reasoning of nomination committees than in the Nordic countries. However, they still need to be exhaustive, and a shareholders' meeting can formulate the nomination committee's procedures in its rules of procedure, among other things, about its procedures and justification for nominations.

### **3. DISCUSSION AND CONCLUSION**

Above, issues regarding nomination committees, which have become increasingly common, have been presented. Among those issues is whether board elections will be more professional and transparent of the existence of nomination committees. According to the issuers of guidelines for good corporate governance and how to operate nominate committees, the case for improvements is argued, and research and experience from elsewhere also point in this direction.

It has not been long since companies began to embrace the advantages of nomination committees. However, as discussed above, the committees are still in the formative phase in many countries. In Iceland, the composition of investors is undoubtedly different from what happens in other countries. For example, pension funds are currently active investors in Icelandic business life, and attention has therefore been focused on them in some ways when issues concerning nomination committees come up for discussion. There are still other ways for shareholders to elect the board of directors; nomination committees are only one recent way for shareholders to do so.

One of the issues concerns the decision-making power of shareholders, but some believe that with nomination committees,

the power of shareholders to choose their company's board is somehow reduced. Therefore, it must not be forgotten that the guidelines on corporate governance take into account the power of shareholders according to the Companies Act to have all the influence and make decisions about the company's activities, e.g., about whether a nomination committee will be established and how its activities will be conducted and what limits will be set for it. Therefore, it is mainly up to the shareholders of companies that have decided to establish a nomination committee to shape their activities according to their circumstances. Therefore, it must not be forgotten that the shareholders ultimately elect the directors and are not bound by the nomination committee's proposals, as previously reported. It is also essential to ensure that the proposals of the nomination committees are submitted in time for the general meeting so that the shareholders have the discretion to take a position on them. It should also be noted that the Companies Act contains instruments and tools that can benefit smaller shareholders and provide them with minority protection.

Guidelines for governance are similar and, in all essentials, comparable to what is happening in the Nordic countries. Therefore, it must not be forgotten that companies can deviate from the guidelines' recommendations as their circumstances require. It can be assumed that good governance, including nomination committees, is one of the things that companies should adopt more and more if considering the development in other countries, e.g., the Nordic countries. The activity of foreign investors has also led to jumps in the development of governance practices, as they have been strong motivators in the establishment of nomination committees.

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