



GO
Investment
Partners

ACGA LISTED COMPANY WORKSHOP

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Nominations – The Neglected Committee

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The Neglected Committee

- Stewardship's top priorities should be to ensure boards comprise directors with an appropriate balance of skills and are held accountable for their performance.
- BUT Boards and institutional investors focus their attention on results presentations, remuneration and audit committees.
- Stewardship and Corporate Governance codes are vague on how directors and institutional investors should interact on NC issues.
- The Nominations Committee (NC) is the Neglected Committee(NC)



NC Issues

- Meet irregularly sometimes only once a year or when a new director is needed.
- NC Often chaired by Chairman of the Board or a family member.
- Such conflicts inhibit constructive succession planning and independent assessment of board skills, performance of individual directors and of board as a group.
- No agreed standard for scope of NC functions.
- At worst dysfunctional boards replicate themselves.
- Global problem that is particularly acute in Asia.



Swedish Solution

- NC usually comprised of four or five of the largest shareowners plus non-executive chair of the board.
- NC recommends who should sit on board to shareholders at AGM.
- System has evolved since mid 1990s – originally an Swedish application of the 1992 UK Cadbury report recommendations
- For more information go to www.tomorrowcompany.com and search for ‘Swedish-style nomination committees’ in a report dated 4th October 2010.



Issues with Swedish system

- NC role very time consuming for Swedish Institutional investors.
- Large international investors reluctant to participate.
- Worry about being made an insider

BUT

- It works in Sweden
- Provides Forum for leading shareholders to meet and collaborate.
- Comply or explain approach means nothing to stop listed companies in many jurisdictions from adopting something similar.



Sub-set of companies where institutional Investors on NC may be beneficial

- Companies where Patriarch or Matriarch has dominating position in Company.
- Where company decides to combine chairman/CEO role.
- Presence of a controlling shareholder – say 25% plus voting rights.
- Loss of confidence situations such as:
 - Unravelling of major strategic initiative
 - Following a scandal
 - Significant shareholder votes against board proposals
 - 3 or more directors receive votes against in excess of 25%



Summary

- Swedish approach works but needs adaptation for other markets.
- Restrict institutional shareholders representation on NC to special situations.
- Experimentation required in Asia.
- Define ‘special situations’ in Stewardship and Corporate Governance Codes and implement on comply or explain basis.
- Such an approach may be particularly beneficial in improving board performance and accountability to institutional investors in Asia.