

CHAPTER 1

INTRODUCTION

1.1 GROWTH TO ADULTHOOD OF NOMINATION COMMITTEES & NEW RESEARCH

This study focuses on the changing role of the supervisory board¹ (SB) with regard to nomination, in general, and the existence and duties of the nomination committee (NomCo) as part of the Board's corporate governance system. Board governance has developed dramatically over the past decades, and topics such as succession planning, diversity and inclusion are gaining importance and attention. However, the question is whether the position of the NomCo has kept pace with these changes. Or are the NomCo's responsibilities and duties unchanged, and, if so, could weaknesses in governance materialize in view of the changing environment? In other words, is growth to adulthood and awareness of the key importance of the NomCo within reach, or is there work to be done? Despite the relevance of the subject and the relationships involved, little theoretical and practice-oriented research has been done in this area to date; hence the focus of the underlying research.

1.2 AIM, FOCUS AND DESIGN OF THE STUDY

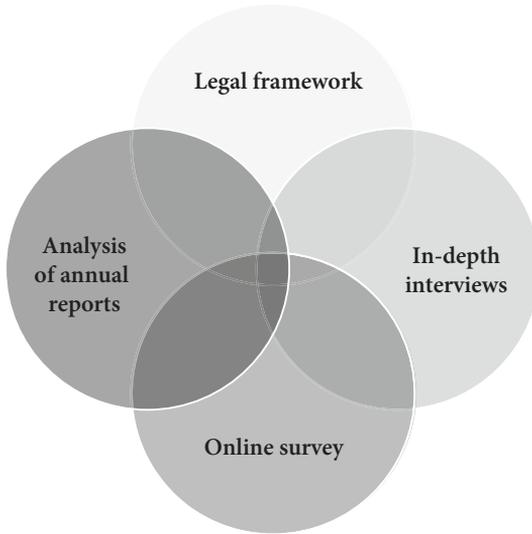
In cooperation with Spencer Stuart, the International Center for Financial Law & Governance (ICFG) of the Erasmus University Rotterdam conducted a study into the changing role of the SB with the regard to nomination, in general, and the existence, duties and responsibilities of the NomCo, in particular. The aim of the study is threefold and relates to (i) mapping out these duties and responsibilities and (ii) collecting good practices and lessons learned. These practices will then be used to (iii) formulate guidelines for effective governance, specifically aimed at both SB and non-executive board members, as well as the board and the NomCo in general. The aim of this research is to combine good governance practices with real-life experiences of SB members on all relevant topics that are and/or that should be taken into account when executing nominating duties. The research focuses on large and/or listed companies.

The research is divided into four parts (sub-studies): (i) a legal framework, (ii) an analysis of annual reports over the year 2020, (iii) an online survey and (iv) ten in-depth interviews with supervisory and non-executive board members. These parts complement each other (triangulation of research methods), and to the extent possible the results from one part are validated in the others; for example, the

¹ As will be explained in more detail in Chapter 2, Dutch corporations typically use a two-tier board system with an SB and an EB. In this study we refer to SBs only.

results of the online survey are validated in the in-depth interviews. In parts (iii) and (iv), attention was also paid to two themes, namely (1) succession planning and (2) diversity and inclusion. The recommended tools in Chapter 6 are relevant for SB (and non-executive board) members as the starting point for a discussion among supervisory (and non-executive) board members to bring their own role and interactions on the topic of nomination to a higher level both in current and in future practice (Figure 1.1).

Figure 1.1 *Triangulation of sub-studies*



1.3 OVERVIEW OF METHODOLOGY

Table 1.1 gives an overview of the different sub-studies, research methods used in each sub-study and the objectives of those sub-studies. The respective methodologies used are discussed in more detail at the beginning of each sub-study.

Table 1.1 Overview of used methodology in sub-studies

| Sub-study | Methodology | Objective |
|----------------------------|---|---|
| Legal framework | Research into the legal framework by means of literature, legislation and regulations, parliamentary documents, case law, governance codes, policy rules and reports. | Gaining insight into the (changing) role competences and developments of SB members and the NomCo. |
| Analysis of annual reports | Study of the 2020 annual reports of 75 Dutch listed companies (AEX, AMX and AMS). | Obtaining an overview of the current state of affairs regarding the factual existence and composition of the NomCo at Dutch listed companies. |
| Online survey | Online survey among SB members. | Understanding the vision and experience of SB members on all relevant aspects of nomination. |
| In-depth interviews | In-depth interviews with SB members in line with the pre-determined interview protocol. | Gaining a picture of interactions, developments and bottlenecks in the supervision of all relevant aspects of nomination. |

This report presents the findings of the research carried out. Chapter 2 discusses the legal framework. Chapter 3 gives an overview of the figures as derived from the annual reports concerning the existence and composition of the NomCo. Chapter 4 contains the results and findings of the online survey. Chapter 5 presents the highlights of the interviews with the SB members. The concluding chapter, Chapter 6, summarizes and overviews the most important findings, recommending tools for improvement in practice. At the same time this is a starting point for discussion between supervisory (and non-executive) board members to bring their own role and interactions on the topic of nomination to a higher level.