

White Paper about

## **Danish Non-Executive Boards in Numbers and Facts**

With special focus on current and potential female board members -  
their board experience and their career background

Volume 3: Non-executive Board Recruitment



Published by

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## **What to expect**

I have prepared 6 reports in total, that deal with different aspects in the description Danish non-executive boards and their diversity. These reports will all be published under the following titles:

- Volume 1 – Non-executive Boards in Denmark
- Volume 2 – Non-executive Board Positions
- Volume 3 – Non-executive Board Recruitment
- Volume 4 – Non-executive Board Members
- Volume 5 – Female non-executive Board Members
- Volume 6 – Motivation to join a non-executive board

These reports are the preliminary highlight of many years of work in - and interest for Danish non-executive boards - their creation, their development, their renewal, and their composition, especially considering diversity.

## **The purpose of the report "Volume 3 – Recruitment of Non-executive Board Members"**

This report has been written with the purpose of describing how recruitment takes place in Denmark when looking for a non-executive board member, thereby giving both recruiters and those wishing to be recruited a joint reference and a common understanding of the mechanisms and criteria that characterize this process. A process that takes place more than 35,000 times a year in Danish non-executive Boards.

At the same time, I would also like to raise awareness about the pros and cons of the methods used today when recruiting non-executive board members.

I also hope that this report can help to create a better focus on how many or how few resources Danish Non-executive Boards are using on the composition of the most important strategic governing body of any company, also seen in relation to how many resources these companies use on the composition of their Board of Directors and more operational parts of their business.

The key findings in this report, which will be elaborated in detail are:

- On average, 100 non-executive board positions are filled every day in Denmark.
- 95% of these recruitments are done without the use of external professional assistance but are resolved in the boardroom. As expected, large companies usually use external professional help in the recruitment process, but also among these companies, recruitment is surprisingly often resolved solely in the boardroom.
- Ownership, family relationships and/or personal networking with the owner are the most important recruitment criteria for Danish non-executive boards – competence and skills are not among the top 5 criteria.
- Danish companies only use just over 2% of their Search and Recruitment budget on board recruitment.
- Many potential board candidates do not have a clear strategy on how to get a non-executive board position, and they are not aware of what is required to be considered a candidate.

## The first outlining of all Danish non-executive Board recruitments

This analysis takes its starting point in "Report 2 - Danish non-executive Board Positions", where one of the main conclusions is that every year, approximately 35,500 non-executive board positions are filled (Refer to this report if you want to read more about the prerequisites for this number).

Based on my available data, it is unfortunately not possible to illustrate:

- How many of these are replacements
- How many are extensions in existing non-executive boards and
- How many are due to the establishment of new non-executive boards

Regardless of the reason, this is a very large number, indicating that non-executive board members are identified and recruited to an extent that is greater than most had imagined.

How these recruitments take place are described in the following models, that are based on the quantitative framework of my analysis combined with qualitative data from primarily my own experience as a board member for over 25 years and my 10 years as headhunter, but also based on a lot of conversations with colleagues, partners and friends who, like myself, have worked with and been interested in this topic for many years.

## In principle, three different models are used for the selection of non-executive board members

### The Hunting Model

- This model refers to when the board/owners approaches an external headhunter and ask the headhunter to identify potential non-executive board members who match a series of predefined requirements and wishes
- This model is used to fulfil approximately 3% of all non-executive board positions.
- The cost of using this model is equivalent to the expected yearly fee for the position concerned.

### The Bag Model

- This model refers to when the board/owners approaches one of the many board networks in Denmark and ask them to identify potential non-executive board members who match a series of predefined requirements and wishes
- This model is used to fulfil approximately 2% of all non-executive board positions.
- This model costs approximately 10 - 15.000 DKK per position occupied

### The Spiral Model

- This model refers to the situation when the non-executive board identify their own candidate without any external help.
- This model is used to fulfil approximately 95% of all non-executive board positions.
- This model comes with no external cost - only the time the board and/or the owners use to find a candidate.

An important element in the entire discussion about the replacement of the non-executive board and how to be considered for some of the non-executive board positions that are annually filled is an understanding of how recruitment to the boardroom takes place today.

As a starting point, 3 different recruitment methods are currently being used when finding new members to the non-executive board, each with their specific characteristics, advantages, and disadvantages, and I will review each of them in the following.

### **The Hunting Model ensures high quality and focuses on competencies**

- This model is based on the working method that all headhunters and companies dealing with Executive Search make use of when finding new non-executive board members.
- The approach always starts with a detailed analysis of the existing non-executive Board, the Board of Directors, and the company's strengths and weaknesses as well as a review of the strategic challenges facing the company.
- In this context and in collaboration with the owners/chairman, an optimal profile is established for the new non-executive board member, both in relation to board competencies, business competencies, and personal skills.
- Based on the ideal competence requirements, the market is now screened for potential non-executive board members, where the Headhunter examines its "prey" one by one - hence the name The Hunting Model.
- The availability of candidates when using this model is almost unlimited and therefore the major challenge is not to find potential non-executive board candidates but to qualify them to match the criteria set.

**Table 1: Pros and cons of the Hunting Model**

Pros of the Hunting Model	Cons of the Hunting Model
<ul style="list-style-type: none"> <li>• This model is 100% focused on what skill sets the company needs in the future, and which is not already covered by the present board members.</li> <li>• This model ensures a very high-quality level in both process and delivery.</li> <li>• This model is in many ways in line with good Governance and is a model that especially big companies and organizations make use of.</li> <li>• This model ensures in its proven method that the most competent candidates are identified.</li> </ul>	<ul style="list-style-type: none"> <li>• This model is clearly the most time-consuming process, as it involves a comprehensive initial analysis and requires relatively long time to identify and qualify the individual candidates.</li> <li>• This model is also the most expensive, and many owners/chairmen are reluctant to pay more than 100,000 DKK for this service.</li> <li>• This model places great demands on the headhunter's morale and ethics as there may be a risk of choosing the first and best candidate or a candidate previously identified in another process and not starting the process from scratch.</li> <li>• In particular, in relation to identifying potential female candidates, there has been a tendency in the industry to provide the easy solution and offer only male candidates instead of digging deeper in the search for the right candidates.</li> </ul>

## The Bag Model is the best alternative for those who want a quick, cheap and qualified process

- The Bag Model is the least used model in Denmark and is characterized that there are only a dozen different non-executive board networks in Denmark which offer these services, some of which are large with almost 200 non-executive board members - such as ASNET Board – while others are very small with just a handful of members - such as BB3.
- These networks all have the purpose of helping Danish companies to professionalize their non-executive board, and it is estimated that today there are approximately 1,000 Danish non-executive board members organized through these board networks.
- Common to all these networks is that their services are based on inquiries from business owners or non-executive board chairmen to find a new non-executive board member and that this inquiry are circulated and offered among the members that happen to be in the network at a given time - hence the name of the Bag Model.
- These non-executive board networks all work from a competency optimization agenda, but their limitation is that they can only offer the accumulated skills of what that their present members represent.
- The Bag Model is currently used especially by the SME segment and by companies that already have a non-executive board member who is in a board network.

**Table 2: Pros and cons of the Bag Model**

Pros of the Bag Model	Cons of the Bag Model
<ul style="list-style-type: none"> <li>• Many of these networks offer ongoing training of their members, so generally, there is a highly updated professional level among their members, both in terms of Board specific competences and more general professional skills.</li> <li>• The networks have a good knowledge of their members and can therefore recommend them with great credibility.</li> <li>• The process of identifying candidates can be carried out very quickly and what usually takes longest, is the process of evaluating the candidates presented to the owners/boards to make the final choice.</li> <li>• As the candidates themselves sign up, there is also the opportunity to meet the "untraditional"/"edgy" candidate that you would not have otherwise found.</li> </ul>	<ul style="list-style-type: none"> <li>• The selection of candidates is limited to the members of each network, and there is thus a natural limitation on the breadth and depth of the skill set that can be offered.</li> <li>• Very few women are members of these board networks, so the networks can struggle to represent a credible diversity.</li> <li>• Many of the networks are so small that they are really struggling to offer a wide range of skills and experiences.</li> <li>• Although the members of the individual networks can usually be found through various digital media, the recruiting criteria of each network are not transparent and therefore, as owner/board chairman, it can be difficult to objectively choose which network to go to for help with a board recruitment.</li> </ul>

## The Spiral Model is the most important approach to a board position

- The spiral model is the most widespread model in Denmark when identifying and appointing new non-executive board members, and as a roll of thumb this model it is not based on a situation where qualification and competences among the candidates has first priority, but where the selection of the candidates instead assume the following criteria:
  - Owners who want a seat on the board
  - Family members that the owner/other board members wish to have on the non-executive board
  - Business relations between the candidate and either the owners or the chairman of the board
  - Political and other professional networking relationships between the candidates and either the owners or the chairman of the board
  - Friendly relationships between the candidate and either the owners or the chairman of the board
- This does not mean that the candidates' skill set are not important, but merely that the competence parameter is prioritized lower than other parameters.
- This model is most commonly used in the thousands of small and medium-sized companies we have in Denmark, but this model is also used in large companies.

**Table 3: Pros and cons of the Spiral Model**

Pros of the Spiral Model	Cons of the Spiral Model
<ul style="list-style-type: none"> <li>• The candidates who are suggested are almost always known by the owners/board and have therefore already obtained the trust and confidentiality that is crucial to whether a member of the non-executive board will function effectively.</li> <li>• Candidates often have a prior knowledge of the company or industry, which means that the person is likely to become an active member of the board almost immediately.</li> <li>• This process is usually the fastest of the 3 models mentioned and often gives the feeling that you can quickly close the hole and move on.</li> <li>• It is usually a model used by new established non-executive boards, where the timing issues is much more important than the competences of the board members.</li> <li>• But also in situations where the owner is uncertain what impact a non-executive board will have for the owner him/herself and for the company he or she has been managing for many years on their own - in such situations, many</li> </ul>	<ul style="list-style-type: none"> <li>• There is a great risk that the new non-executive board members become "clones" of existing members.</li> <li>• There is often no mention of the competence requirements of the board or which competencies the potential candidates should possess and the boards are easily at risk of not being equipped to cope with the strategic and business challenges facing the companies.</li> <li>• The identified board candidates do not necessarily have experience from a boardroom - either as a member or as a participant.</li> <li>• There may be a pressure on the candidate to join the non-executive board, although the person and the board would be better served without.</li> <li>• There is a risk that you don't address the responsibility and risk - both personally and financially – that you have as a non-executive board member.</li> </ul>

owners tend to find their board members in their closest circle of relations.	<ul style="list-style-type: none"> <li>The identified candidates can easily be too closely related to the owners/chairman, with the risk that they have difficulty in prioritizing the company's interests over the owners and at the same time being neutral in their relation to the owner/management.</li> </ul>
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## Astonishingly few resources are invested in filling the the Danish board positions

If you look at the 6 billion DKK that Danish companies used in 2017 for recruitment and searching services<sup>1</sup>, only 2.5% or approximately just over 130 million DKK annually are used for recruiting non-executive board members - a number that can be validated by looking at Table 4 below.

Bearing in mind that the board is the company's main governing body, one may wonder why no more money is invested in this area.<sup>1</sup>

**Table 4. Investments in board recruitments**

	In Total	The Spiral Model	The Bag Model	The Hunting Model
Number of positions	35.500	34.000	500	1.000
Average price per position	3.732 DKK.	0 DKK.	12.500 DKK.	125.000 DKK.
Approx. Investment in total	131 mio. DKK.	0 DKK.	6,25 mio. DKK.	125,0 mio. DKK.

These numbers are subject to some uncertainty as they are not based on external sources but on information obtained from interviews with many market players, as well as many years of experience in recruiting non-executive board members.

It is my assessment that the uncertainty is the same for both the Bag and Hunting model, but even with a relatively large margin of error, it does not change the overall picture that the annual investment in finding the right candidates for the non-executive board positions is relatively modest, viewed in relation to how much money is spent on finding the best people for more operational-related positions.

## You need a clear board strategy

It is important that you, as a potential non-executive board candidate, are aware of these recruitment models and motivations, and that you plan your own strategy based on the current rules of the game.

I have met a lot of candidates who struggle to accept these rules, but my recommendation to these is always:

- Understand and accept the rules of the game as they are and act on their terms - if you want to wait for the rules to change - which I hope they do - you may have to wait a long time.

<sup>1</sup> From Supana's latest examination of the Search and Recruitment Business in Denmark, published 11<sup>th</sup> Sep 2018

- If you want to make a board careers among the SMV segment, it does not help only to approach headhunters - at the present time, the likelihood that they will have board assignments from this segment is very small.
- If you want to get involved in a process using the Spiral Model, it does not help to emphasize your competencies as the main arguments - keep in mind that there are many other criteria that are much more important in the process.
- Focus on the underlying owner structure, the characteristics of the company, and the structure of the non-executive board you are approaching and not only on what difference you can make.
- Get your networks going and prioritize these activities – also at the expense of the effort you put into your current job - "you cannot hide behind being saying that you are so busy in you daily work that you don't have time for networking".

## My reflections and new questions that arise

This report has for me uncovered 4 essential conclusions:

- 95% of the non-executive board recruitment that takes place every year is without the use of external professional assistance, but happens solely in the boardroom.
- Ownership, blood and/or personal networks are the most important qualifications for being recruited to a non-executive board in Denmark - competences are of secondary importance.
- Danish companies only use just over 2% of their Search and Recruitment Budget on board recruitment.
- It requires a clear strategy - based on the real current situation - to find and to be exposed to a non-executive board position

My analysis of the recruitment process also raises a few key issues that I will address in forthcoming reports:

1. First, what characterizes the people who are elected to our non-executive boards, and are there differences between the men and women who are elected to our boards? This topic will be dealt with in the next report "Danish Non-Executive Board Members" published in November 2018 and especially in the report "Female Non-Executive Board Members", which will be published by the end of December 2018.
2. Secondly, what is the motivation for Danish board candidates to start or maintain a non-executive board career? This will be dealt with in "Volume 6 - Board Motivation" to be published in January 2019.

## About the author

Tau Steffensen has in the last approximately 10 years worked as a Headhunter in Denmark, where he has worked with a extensive number of large and medium-sized Danish companies.

Before that time, Tau had a large number of CXO positions and, from 2002 to 2008, has been the owner of a smaller production and trading company.

His career within non-executive boards began in 1998 when Tau was elected to the non-executive board for both FDIH and DK-Hostmaster. Since that time he has been in a number of non-executive boards and

Advisory Boards and is currently Chairman of HP Electronics Montage ApS, a position he has had since 2014.

Tau Steffensen has been working actively for many years in various non-executive board networks and is currently a member of ASNET Board, where he is the leader of their Pipeline Group in Region East.

Tau Steffensen has both academically and professionally worked with non-executive boards and board recruitment for many years and knows the dynamics of non-executive boards both inside and outside as a member of the board.

Tau Steffensen has worked with both professional international non-executive boards and semi-professional Danish boards, so his experience in this area is long-term and covers many types of non-executive boards.

His passion for board diversity began in 2011/12, where he began to analyse this area more systematically, and since then Tau has performed at a wide range of conferences and events as well as been quoted in articles and interviews about the preliminary results he has revealed.