

Attracting management talent to SOEs: how CEOs are selected and compensated in Sweden

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Ownership**

- **Introduction to State-Ownership in Sweden**
- **Recruiting CEOs**
- **Remuneration of CEOs and executive management**
- **Conclusion**

The state - One of Sweden's largest shareholders

49 SOEs (JSCs) – 41 wholly owned and 8 jointly owned

Approximately 163,000 employees

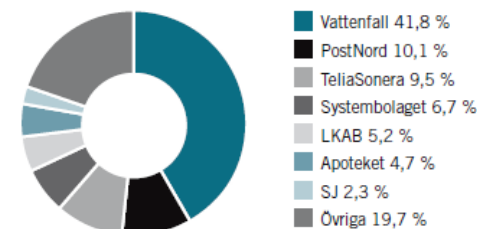
Revenue ~ \$ 42 billion ←

Profit ~ \$ 2 billion

340 board members whereof > 80 percent independent

Market value ~ \$ 55 billion

OMSÄTTINGSFÖRDELNING JAN-DEC 2014¹⁾
INKLUSIVE INTRESSEBOLAG



1) Nettoomsättning inklusive intressebolagen i förhållande till statens kapitalandel.

Attractive companies – some of Sweden's largest companies



The management organisation

- **Organisation separated from sector policy**
- **34 professionals:**
 - 3 heads = management group
 - 13 investment directors (working also as board directors)
 - 8 investment managers
 - 3 legal counsel
 - 2 board recruiters
 - 2 specialists in sustainable business
 - 1 investor relations
 - 2 support staff

The corporate governance model

The State's Ownership Policy

- Legal framework
- Ownership mandate
- Key governance principles
- Guidelines
 - Remuneration
 - External reporting
- Swedish Code of Corporate Governance



Hiring and firing the CEO

- **The board's most important task besides setting the strategy of the company**
- **State follows the same process as does privately owned companies**
- **State's practice follows best practice in market**
- **Tools for the board:**
 - Annual evaluation of board's work and CEO
 - Management reviews
 - Proposing remuneration principles for management (in line with state's guidelines) to the AGM
- **Tools for the owner:**
 - Annual survey reviewing pay of executive management in comparison to market
 - Setting guidelines
 - Dialogue with chair
 - Review and assess performance of the boards

Hiring the CEO

- **The CEO leaves the company (voluntarily or not).**
 1. Does the CEO have to leave immediately?
 2. Interim solution or long-term? External or internal interim solution?
 3. Should the whole board or a working group under the chair handle the recruitment?
 4. Procuring a search consultant (Y/N)
 5. Job analysis and defining requirements
 6. Are there any internal candidates to include in the process?

The process

- **Identify the strategic challenges for the company**
- **Define candidate requirements and job analysis**
- **Long-list of candidates**
- **Short-list candidates and assess these**
- **Board meets proposed final candidate/-s**
- **Back-ground check (courts, references, health check etc)**
- **Terms negotiated and contract signed (use legal expertise)**
- **Inform owner/-s**
- **Recruitment made public**

Remuneration of CEO and executive management

- **State's Guidelines:**
 - No variable component, only fixed salary (differs from market which can be 0-50 percent of fixed salary)
 - Pension premium < 30 percent of salary (market)
 - Retirement age not less than 62 and should be at least 65 (market)
 - Period of notice < 6 months (market)
 - Severance pay < 18 months (0 months if CEO terminates). No severance pay after 65 (market)
- **Compliance with guidelines high**
 - Total remuneration for SOE management well in line with market (market)

Conclusion

- **Competitive remuneration essential for attracting talent, optimizing performance and preventing corruptive behaviour**
- **In turn-around cases variable remuneration or shares/options might be an option**
- **In cases of privatisation stay-on bonuses or other solutions might be necessary to hold on to key personnel**
- **Many SOEs in Sweden are very attractive for talent**
- **State as an owner has generally a good reputation among talent although private equity can be a tough competitor**
- **Make management accountable through professional boards who can challenge professional managers**
- **Communicate owner's expectations through the chairs not by filling the boards with ministry officials**

Thank You!

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