What the World Can Learn From Nordic Boards

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Proactive, engaged and democratic, corporate boards in Nordic countries are well-placed to deal with today's increasingly complex operating environments.

Amidst the headwinds of 2021, Maersk posted record profits and strengthened its position as the leading global logistics company. To a large extent, that performance resulted from the profound transformation of the 118-year-old Danish company in the last five years, which saw it evolve from a diversified conglomerate to an integrated technology-driven logistics company. In the process, Maersk has developed what many experts call an exemplary sustainable business model for the shipping industry.

One of the key planks of this model is Maersk's pledge to accelerate the decarbonisation of its operations, which includes launching **the world's**

first carbon-neutral container ship by 2023. Since the new strategy was unveiled in February last year, Maersk's stock price has soared by 60 percent.

Maersk's board of directors played a crucial role in designing this transformation and supporting the management in carrying it through. As board chair Jim Hagemann Snabe told us: "The role of the board is changing. It needs to help executives formulate a compelling and relevant dream and then create the conditions that allow executives to experiment and not be constrained by too many details. The board's focus has to shift towards the future [rather] than the past."

Corporate boards across the globe struggle with similar challenges as their Maersk counterpart: finding a balance between shareholders' appetite for increasing returns and the ESG agenda, complying with increasingly complex regulations, and keeping strategic focus. Every board is unique and there are no universal solutions, but Maersk's board and other boards of directors in the Nordic countries of Denmark, Norway, Sweden and Finland provide interesting examples when it comes to dealing with those challenges effectively, often in unorthodox ways.

Between 2017 and 2021, we surveyed 200 board chairs, directors and CEOs from the four Nordic countries and interviewed another 44 chairs and 60 board members in detail. We identified five paradoxes that distinguish the "Nordic approach" and provide practical insights for boards everywhere else.

1. Engagement and independence from shareholders

An effective board of directors, corporate governance wisdom has it, protects shareholders from management's opportunistic actions. They also protect the company and its other stakeholders from shareholders' greed and, finally, minority shareholders from dominant owners.

This complexity puts many corporate boards in a defensive position. They consider shareholders a foe rather than a friend, adapt a strategy of equal distancing rather than equal closeness, and shut their boardrooms to owners.

Not so boards in Nordic countries, where both corporate laws and the governance tradition give shareholders more influence over the affairs of the company. Directors are not afraid to connect with shareholders in a systematic manner. Boards (mostly through their chairs) proactively engage owners in a dialogue about the latter's expectations, needs and concerns. As Sanna Suvanto-Harsaae, chair of Finnish state-owned corporation Altia, put it: "I am proactive with the owners and get a lot of positive feedback about proactivity. I go there to listen and ask a lot of questions. I make sure we as a board and management are aware of shareholders' concerns."

Nordic boards also help shareholders to define their positions vis-à-vis their companies and document them. Many companies adopt a practice called Owner Directive – a document prepared by the board and approved by the shareholders which outlines the owners' expectations and rules of engagement among the owners and between them and the company.

Boards in Nordic countries not only listen to shareholders but also learn from them. As a chair from Finland explained: "If a shareholder has 30 years of industry experience, I want to hear their ideas about the next ten years before we debate strategy at the board."

This willingness to learn, however, does not compromise Nordic boards' independence. As one chair from Norway said: "If an owner makes a suggestion which contradicts the overall direction we have agreed on, I have no problem telling them: 'That is a good idea, but we will not implement it.' I expect them to respect my decision."

We call this type of relationship between boards and shareholders **engaging-assertive**. Boards proactively seek shareholders' views, help them to form opinions and consult them on important matters. They also inform them about board agendas, decisions and the underlying rationale. They combine this proactive approach with strict adherence to rules on disclosure and minority shareholder protection.

2. Small yet diverse boards

To command shareholders' respect, boards of directors need to be good at what they do. Nordic boards are arguably the most competent and engaged in Europe, thanks to a number of internal practices.

First, nomination committees consisting of independent professionals and owners recommend director candidates to the board and advise shareholders on remuneration. The committees work throughout the year, seeking to understand the owners' expectations, the business strategy and the needs of the board in order to decide on the best board composition for the next year and the years to come. They engage executive search companies, thoroughly evaluate candidates, and study remuneration trends and best practices before making their recommendations. Nomination committees also organise or actively participate in annual board evaluations and use the outcomes to prepare proposals for shareholders.

In Nordic countries, every director stands for reelection once a year and an extraordinary shareholders' meeting can dismiss the whole board at any time. This system helps to keep directors motivated and focused on the job from day one. The small size of most Nordic boards, which rarely exceeds 10 directors, prevents free-riding and makes members more engaged.

What Nordic boards may lack in size, they certainly make up for it with diversity. Nordic boards are the most **gender-diverse** in the world while Nordic public companies have one of the highest percentage of foreign directors in Europe.

Nordic companies also make employee representatives effective board members by creating opportunities for motivated and capable staff members. They then design training and induction programmes for them, as well as provide mentoring by the board chair and experienced directors.

3. Non-executive but committed directors

Nordic boards are non-executive in spirit and composition. Their directors are engaged not only with the CEO but also with the rest of the organisation. While there's a clear line between the board and management, their interaction is intense and deep.

For one thing, Nordic boards see their purpose as long-term value creation. A chair from Sweden observed: "We all work for long-term value creation. The task of the board is to help management to create that value. When every director understands it, we become very effective as a board." Such an approach helps boards adopt a "helping attitude" and be closer to management and the rest of the organisation.

One important area of Nordic boards' collaboration with management is innovation. As a chair from Finland explains: "Innovation is a way of life at our company, our cultural code. […] We have to make sure that the company has an appropriate frame for nurturing innovation and people who can carry it through."

Another area of board-management collaboration lies in leadership development. Nordic directors review company-wide leadership development programmes and meet with younger leaders.

4. Combining shareholder and environmental and social value creation perspectives

One of the main challenges corporate boards face today is dealing with ever increasing contextual complexity. They have to fit subjects including ESG, innovation, leadership succession and risk management into a few meetings a year. Some boards choose the road of compliance and focus on ticking the boxes prescribed by the regulators. Many Nordic boards, in contrast, combine business pragmatism with a big-picture view of what society needs.

"At this board we have been thinking about sustainability for a long time for a simple reason – we can create value in the long term only by being sustainable," said a Swedish chair. "We asked management to align all development and innovation efforts with our sustainability goals."

5. Inclusive yet effective board process

We found that boards in Nordic countries highly value procedural fairness while caring little about formalities, rituals and ready-made recipes. They adopt an effective decision-making process that is built on several cornerstones.

It all starts with comprehensive information to which all directors have easy and early access before board meetings. During meetings, every director speaks their mind, opinions are heard and discussed, and questions are answered. The goal is to put different perspectives on the table.

"Complex matters require diverse perspectives, reflection and openness to alternatives," observed a chair from Norway. "If the process does not allow for all of that, the quality of the decisions will not be as good as the matter deserves."

Nordic boards rely not only on standing committees but also temporary ones to study specific complex issues such as the pandemic's impact, China's rise and blockchain technology. The final discussion always takes place at the board and not the committee level.

In decision making, Nordic boards always strive for consensus and the board process prioritises effectiveness over efficiency. After the decision is made, the board ensures it is formulated in an unambiguous and actionable manner.

The final cornerstone in Nordic boards' effective process is a comprehensive board evaluation every one or two years, often with professional help. They believe this helps them to be more effective.

The spirit, not the letter

Although the principles and practices described above have emerged under the specific social and cultural conditions of Northern Europe, they could be adapted to **corporate governance contexts** throughout the world. It is the spirit, not the letter, that matters.

We recommend that boards interested in improving their effectiveness and impact reflect upon the following questions:

On shareholder engagement

Do we consider shareholders as partners or opponents? Do we proactively engage with them? Do we understand their needs and expectations? Do we use their inputs in our work?

On board composition

How comprehensive and professional are our nomination and board evaluation practices? Do we have the optimal board composition in terms of size and competencies? Is our board diverse enough, not only in terms of gender but also in terms of academic, professional and cultural background, profession, nationality and age?

On the board process

Do we act independently of any shareholder, management team member or other stakeholder? Does our board process allow for comprehensive discussions, diversity of opinions and consensus-based decision making? How bold is our board's agenda? How pragmatic is it? Does it reflect the expectations of company owners and other stakeholders? Does it address major global challenges? Is it forward-looking?

On governing executives

Have we created an adequate frame for effective executive action? Does our management have what it needs to create value in a sustainable manner? Do our incentive and evaluation practices promote values and encourage behaviours we expect from management?

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