



Nordic Board Study 2021

The global coronavirus pandemic hit hard and took everyone by surprise in early 2020. Companies worldwide are now adjusting to a new reality and planning for post-Corona times. Despite the challenging 2020, Russell Reynolds Associates continued with its target to improve the Nordic board study first conducted in 2020. This year's Nordic Board Study includes both quantitative analysis on current boards as well as qualitative interviews with leading Nordic board chairs from Denmark (OMXC25-listed companies), Finland (OMXH25), Norway (OBX25), and Sweden (OMXS30). We examine these companies by focusing on strategic priorities, ways of working, governance, and selected key topics such as diversity and ESG. Our anonymized interview analysis is based on discussions with 43 chairs from the indexed companies above comprising of a full spectrum of industries. The study represents over 41 percent of the chairs above-mentioned indexes. They oversee Nordic companies with a total market capitalization of 740 billion Euros.¹



Sustainability will be the number one strategic focus area for Nordic boards in 2021-2022

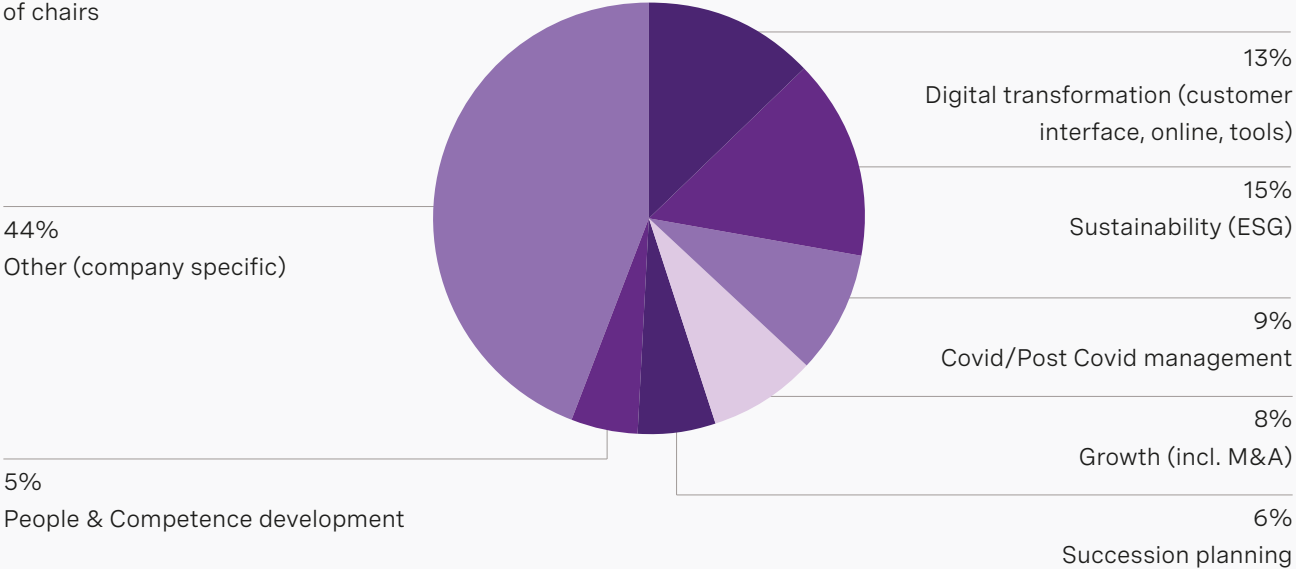
Across all industries, Nordic boards are similarly aligned on their future goals and focus areas. Digitalization and sustainability (environmental, social and governance, or ESG, issues) rose as the most important areas of focus when we asked the chairs to name their two major strategic focus areas for the next 18 months. Fifteen percent of respondents named sustainability and ESG as their top priority, with digitalization followed immediately after with 13 percent of the answers. Our respondents viewed digitalization in broad terms including customer interface, online tools, and other online work. Nine percent of the respondents saw COVID and post-COVID management as their priority number one, and 44 percent of answers were in the "other" category, representing organization-specific targets.

"We need to adjust to a new situation where sustainability and indeed digitalization are the key."

"Digitalization has been on the radar for a long time but the COVID situation has made it more urgent, beat your go to market strategy or effectiveness with working from home. Sustainability has moved up the agenda."

"Transformation driven not by COVID but by digitalization and technology shifts leading to disruption and increase of competition."

Strategic focus areas for the next 18 months
% of chairs



Source: Russell Reynolds Associates Nordic Board Survey, 2021

Post-COVID management is seen as the highest risk across the Nordics

Current imminent risk factors are quite similar industrywide. Post-COVID management is, for obvious reasons, on everyone's board agenda. However, other long-term issues such as cybersecurity, climate change (ESG) and geopolitical issues, especially with the US and Chinese markets, are seen as the most imminent risks. Cybersecurity is a crucial issue, with over 60 percent of boards dealing with the topic more than twice per year, while fewer than 3 percent do not address it at all.

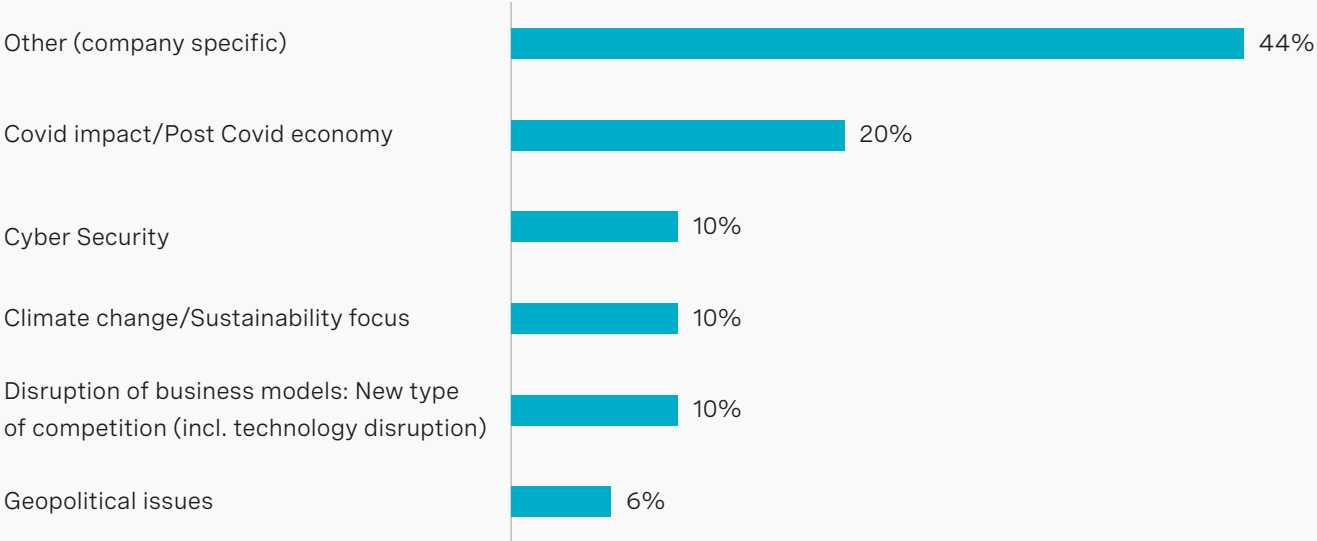
"Political agendas with the US and China play into the picture for us as a company."

"Free trade: USA and China trade... We need EU to protect us in this... We do not have the same rules [as them] and free trade should secure the same rules (e.g., usage of child labor) ..."

"Cyber risk which is hitting companies again and again and it is hard to control. It is an issue, and we need to invest in building defenses."

Top risks identified

% of chairs



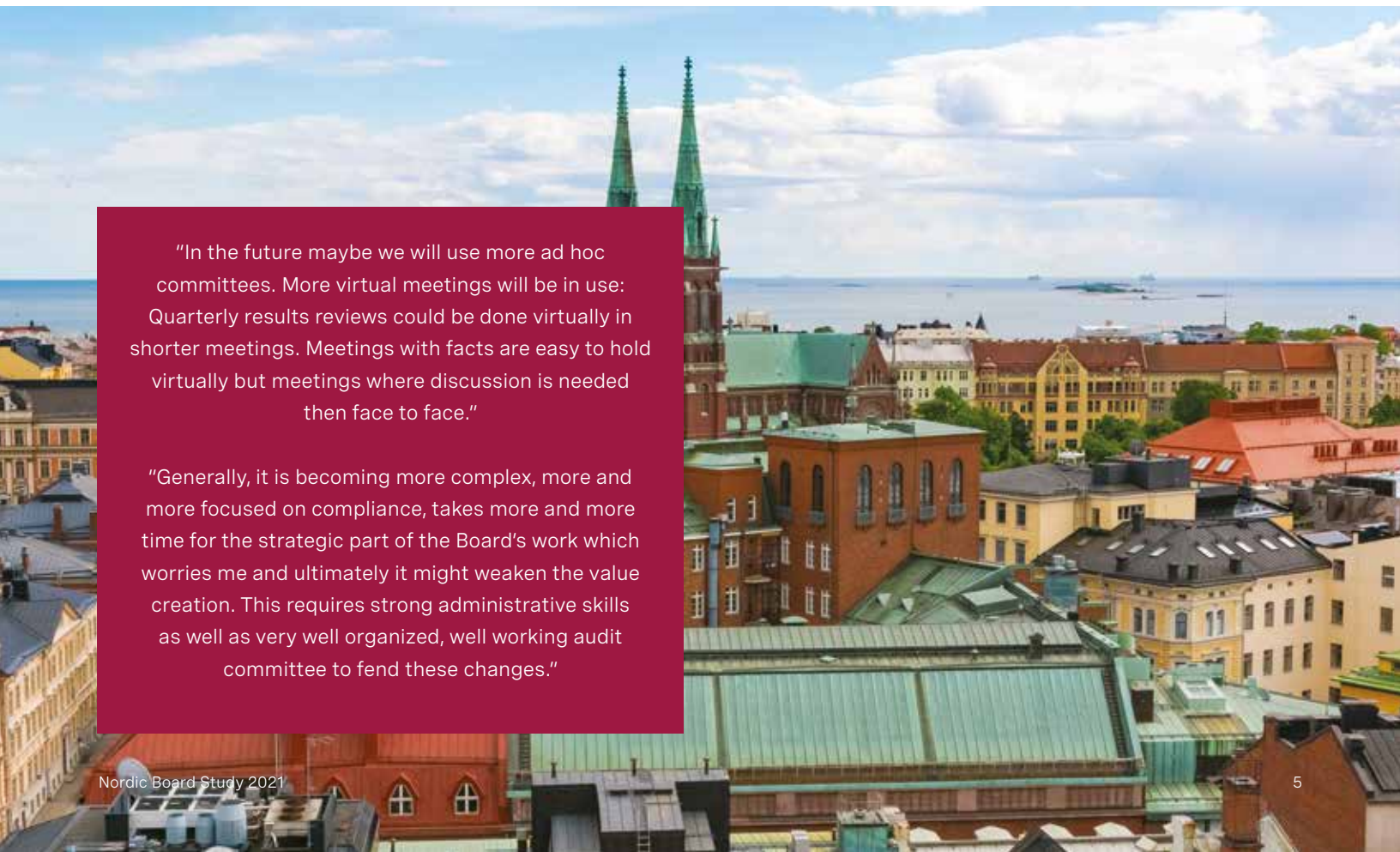
Source: Russell Reynolds Associates Nordic Board Survey, 2021

Hybrid work is here to stay - COVID has changed board practices for good

COVID has and will bring new work culture to the board. Chairs foresee that the new normal will include a combination of a few, longer face-to-face meetings combined with regular shorter virtual meetings. Forty-four percent of the interviewed chairs feel that virtual meetings have made their boards more effective, compared to 39 percent who say it has made their boards less effective. Although the virtual meetings have made it easier to hold ad hoc meetings and saved travel time, most chairs see a risk that going fully virtual may deteriorate board culture. Virtual meetings lack important social interactions, like coffee break discussions, and as a result, informal bonding of the board members outside the formal agenda becomes more challenging. All chairs feel that face-to-face meetings will continue in some form as soon as the situation permits. Overall, the consensus is that the future board meeting model will be a hybrid of face-to-face and virtual gatherings.

Chairs still feel that the most important factor in securing efficient board work in the 2021 is meeting face-to-face, accompanied with bilateral meetings between the chair and each member. Most chairs saw the need to have more one-on-one discussion as a tool to enhance communication. Furthermore, there is an even more pressing need for everyone to secure good preparation for board meetings. As onboarding will become ever more challenging in virtual times, most chairs feel that investing in onboarding processes becomes more crucial than before the COVID pandemic.

In the future, board committees are seen as a way to deep-dive into specific topics. Chair expect that new committees will be born, for example, around sustainability, product(ization), and innovation themes.



"In the future maybe we will use more ad hoc committees. More virtual meetings will be in use: Quarterly results reviews could be done virtually in shorter meetings. Meetings with facts are easy to hold virtually but meetings where discussion is needed then face to face."

"Generally, it is becoming more complex, more and more focused on compliance, takes more and more time for the strategic part of the Board's work which worries me and ultimately it might weaken the value creation. This requires strong administrative skills as well as very well organized, well working audit committee to fend these changes."

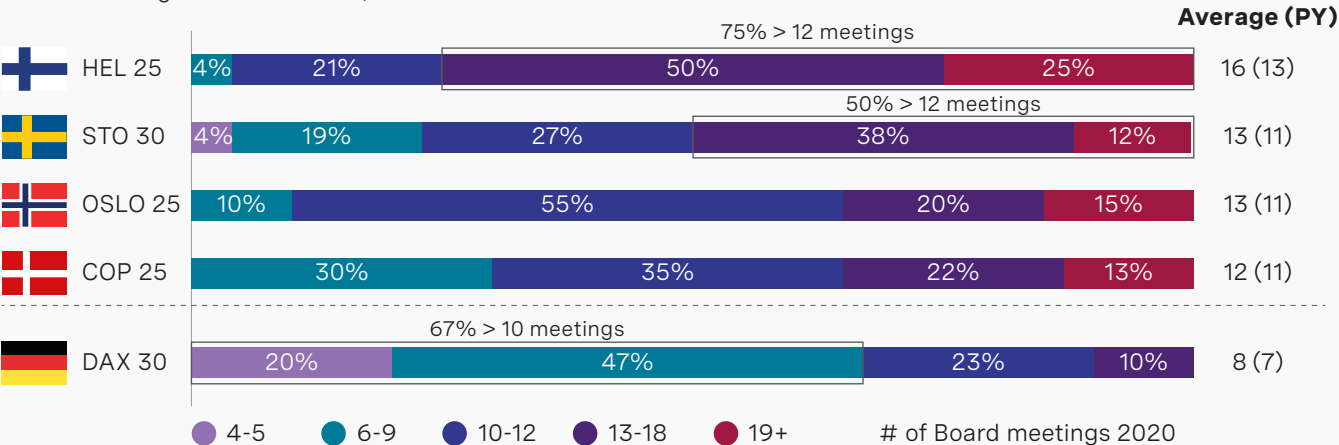
There is a pressing need to improve board compensation to secure the best competences

Board compensation was a hot topic of discussion among the chairs. The general expectation is that drastic measures will be made in terms of board fees. When Nordic board compensations are juxtaposed with the other European indexes in terms of the amount of board meetings divided with compensation, we found out that the Swiss Market

Index (SMI) and Deutscher Aktienindex (DAX 30) board members are compensated three times more than their Nordic peers. Especially in Finland and Norway, the high number of meetings per year decreases relative compensation compared to directors in other countries.

Boards in HEL 25 companies meet most often. In Corona year one, the number of meetings across all Nordic indices increased by almost 20%

Share of companies with a certain number of board meetings in 2020 (as per governance/annual reports; includes virtual meetings where available)

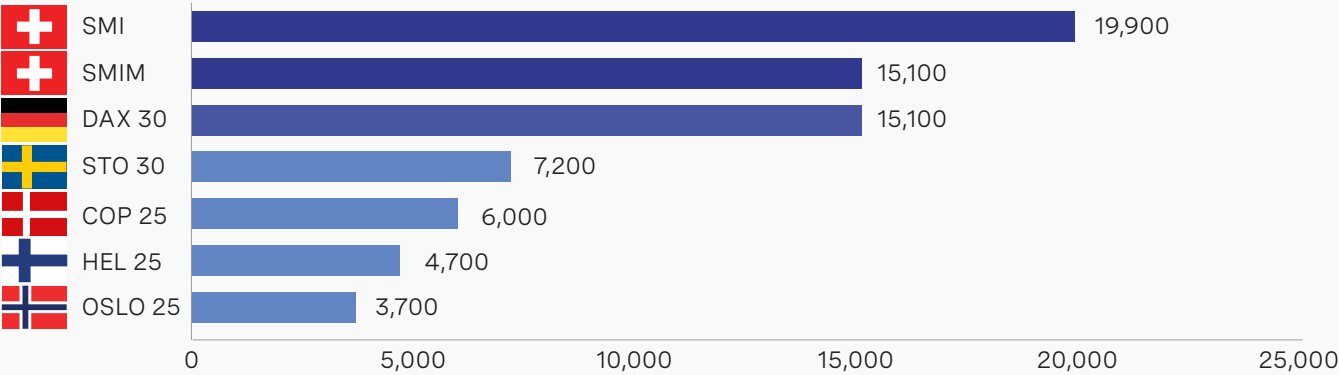


Source: Russell Reynolds Associates Nordic Board Survey, 2021

Due to the high number of meetings and lower pay, Oslo 25 directors receive the lowest base compensation per meeting. Other major European markets pay multiples

Comparison of the average fee per board meeting by index

Fee per board meeting (= index average of "regular member's base compensation" – divided by – average "number of board meetings")



Nordics: 2021 base compensation approved by the Annual General Meetings and published by the companies (excluding meeting fees or committee fees) for regular member and number of 2020 board meetings

DAX 30 and SMI/SMIM: 2020 base compensation for regular board member and number of 2020 board meetings

Source: Russell Reynolds Associates Nordic Board Survey, 2021

The quantitative data on compensation is supported by the qualitative interviews. Practically all of our interviewed chairs (95 percent) anticipated the board compensation to increase within the next five years. Seventy-two percent of chairs felt that the lump sum fees will at least increase. Twenty-three percent were expecting a development in a stock and performance-based compensation model. The underlying factor for the board compensation fee increase is the fear of losing top talent and inability to attract global high-grade talent to Nordic boards. Due to the high number of meetings and low compensations, chairs find it difficult to present Nordic boards as appealing opportunities for the top leaders in the world.

In a globalizing world, the need companies need to internationalize their boards. Nevertheless, many Nordic companies have government ownership ties. In Norway, 20 percent of the studied companies have strong governmental shareholder ties. Finland follows with 12 percent, and both Denmark and Sweden with 4 percent each. This will lead into a conflict of interest between the owners' need for raising compensation against the general public attitude that deems the current compensation packages already excessive.

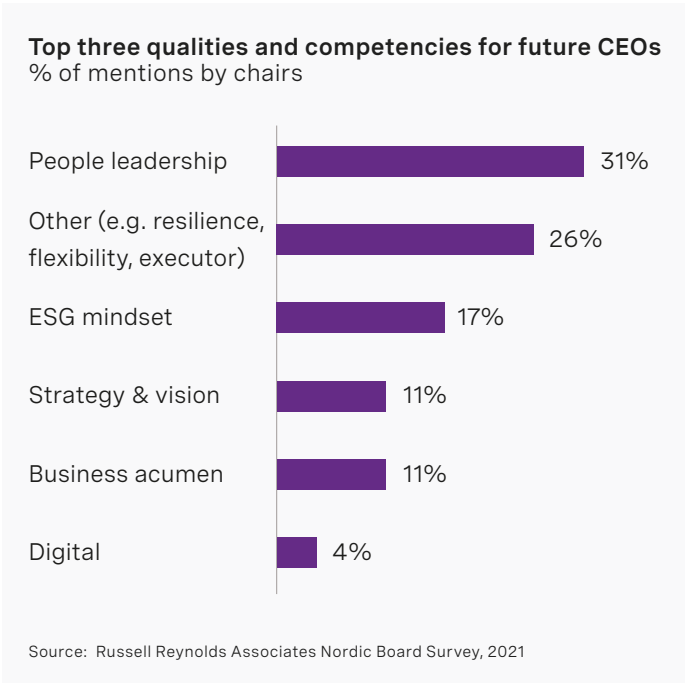
"We need to get good people - tier one - to our boards and we are not getting them if the compensation is not on the right level."

"Executives are often overpaid while Board work in generally underpaid still with big responsibility and big risk. The institutional owners don't seem to care about this or are afraid of being criticized."



An ESG mindset is the one common competence driver that chairs require from their future CEOs

A recent Russell Reynolds Associates and UN Global Compact study introduced a model describing Sustainable Leaders. This model includes four qualities: multilevel systems thinking (naturally curious mind), stakeholder inclusion (high level of empathy and authenticity), disruptive innovation (courage to challenge traditional approaches), and long-term activation (courage and resilience to stay the course).² We found it very positive in our discussions with the chairs that ESG mindset (ability to read a wider social context and trends) is well germinated in most of the Nordic boards. We found that ESG mindset (ability to read and see the wider social impact) has become an important competence for future CEOs (17 percent of answers). Other CEO competences are usual people leadership (31 percent), business acumen (11 percent), strategy and vision (11 percent), and digital (4 percent).

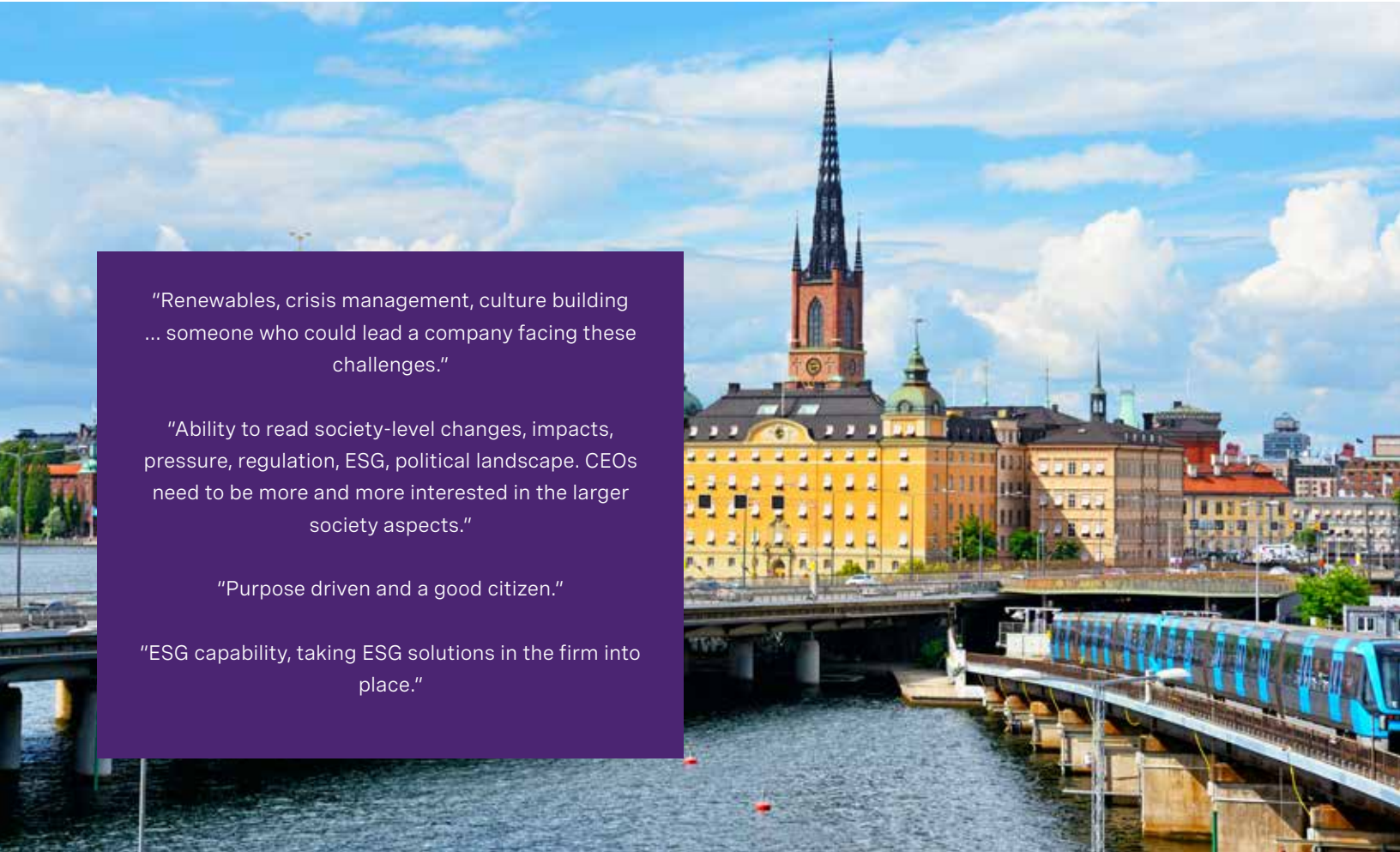


"Renewables, crisis management, culture building ... someone who could lead a company facing these challenges."

"Ability to read society-level changes, impacts, pressure, regulation, ESG, political landscape. CEOs need to be more and more interested in the larger society aspects."

"Purpose driven and a good citizen."

"ESG capability, taking ESG solutions in the firm into place."



Representation of women on Nordic boards has broken a 35 percent threshold







On the global level Nordic boards are considered diverse relative to gender, competence, and nationality perspective. The Nordics clearly are leaders in the world when we look at women representation in the boardroom, as all major boards in the Nordic have broken the 35 percent mark. In Europe, new measures have been taken to bring in more women leaders into boards. Spain aims to have a minimum 30 percent women presentation in boards, and the Netherlands has recently passed a law requiring the same. In the UK, FTSE 350 boards reached 30.6 percent women board members. By comparison leading companies in Japan have under 10 percent women executives.³ Despite the overall good state of board diversity in the Nordics, 60 percent of interviewed chairs plan to diversify their boards even further. In addition, 80 percent of chairs feel that also their C-suite diversity should be improved.

However, when we examine in detail what roles the women board members take, the picture changes. Only 5 percent of studied companies have a woman chair, a figure unchanged since 2020. However, we are pleased to see that the committee chair share of women has increased slightly to an average of 28 percent from 23 across the Nordics.

As for age diversity, average director age and tenure have not seen drastic changes. The average age for men is roughly 60 years old and for women 56. Sweden leads with the board seniority level with 51 percent of directors over the age of 60. Director tenure is also consistent to the previous year: women usually sit a term between 3.5-4.5 years and men 4.5-6 years.

An OSLO 25 and STO 30 the age differences between men and women is the greatest. Around half of the directors on STO 30 and COP 25 are older than 60 years

Age and tenure by gender and index; share of directors who are older than 60 years have held their positions for eight years or longer (previous year wherever available)

								
	Age	Tenure	Age	Tenure	Age	Tenure	Age	Tenure
Women 	58.3	3.4 (3.5)	56.1 (56.1)	3.6 (3.8)	54.8 (54.6)	4.3 (3.4)	56.8 (55.9)	4.5 (4.5)
Men 	60.8	5.7 (5.1)	59.2 (59.2)	4.7 (4.9)	59.7 (59.3)	5.2 (4.7)	61.1 (60.7)	5.9 (5.9)
Older than 60	49%		40% (41%)		42% (38%)		51% (47%)	
Tenure of 8 or more years	24% (23%)		16% (19%)		24% (18%)		23% (24%)	

Source: Russell Reynolds Associates Nordic Board Survey, 2021



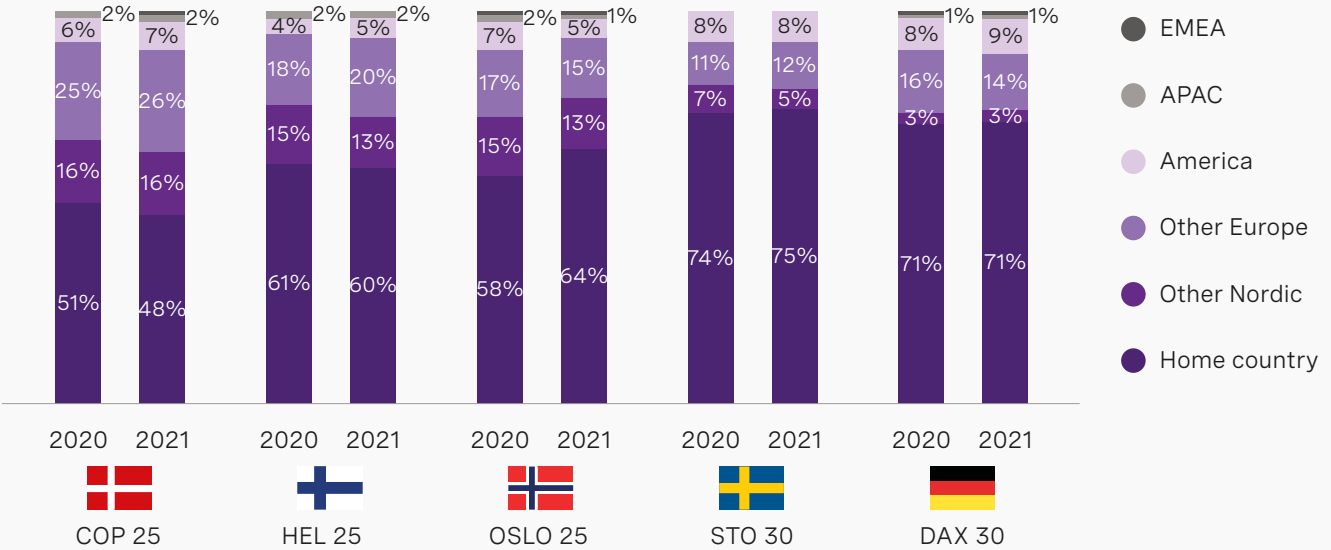
"We will absolutely improve our board diversity given the geographical expansion. The new generations will clearly improve the board diversity further."

In terms of nationality and ethnic background, Nordic boards are still rather homogenous. An average board member today was born around 1960s when the Nordic countries were still even more homogenous.⁴ In terms of industry, most companies that are geared to the local markets have the highest share of Nordic board members, such as financial services (86 %) and consumer goods (80%). In contrast, non-Nordic board members is higher in other more international businesses such as energy and oil & Gas (37%), tech and telecom (34%), and healthcare (30%). These combined explain why over 60 percent of board members are either from their native or from another Nordic country.

For comparison, US and UK boards have focused on gender diversity over the past ten years, and they are now focusing more on ethnic diversity. There is a plenty of progress to be made. According to ISS estimates, only 10 percent of Russell 3000 directors belong to an ethnic minority group, and only 15 percent of new directors are ethnically diverse. In Canada, from 2020s onwards, companies under Canada Business Corporation Act must disclose diversity numbers and percentages of their directors and senior management position holders.⁵

Boards in the region are heavily dominated by Nordic and European Nationalities, APAC and EMEA representation is marginal

Share of board members by nationality on Nordic boards



Source: Russell Reynolds Associates Nordic Board Survey, 2021

Sustainability and ESG is a major Nordic board agenda topic

Even though many Nordic boards currently lack an ESG or sustainability committee, these issues are solidly discussed on their board agenda. Fifty-eight percent of interviewees mention that they discuss sustainability matters more than four times per year, and 34 percent discuss it at least two to four times per year. Only 5 percent mentioned that sustainability or ESG topics are discussed less than twice per year. In the Nordics, chairs feel their companies perform well in terms of sustainability and ESG. Fifteen percent rate their ESG and sustainability efforts as excellent; 62 percent also say they are good, 23 percent as adequate, and none as poor.

While deep diving into sustainability and ESG topic, we found out that the top priority is in reducing CO2 emissions and taking care of the environment. This is explained by the strong industrial dominance, and thus CO2 emissions-centered industries, among the largest companies in the Nordic region. Chairs feel that their duty is to embed sustainability matters in all business decisions be it investment or product decision or large-scale business portfolio design. The sustainability pressure comes both from inside the companies and from ever-more-aware investors and regulators.

This resonates well with the global megatrends. In France, ESG issues manifest quite visibly in new ESG committees, which have doubled in number among the CAC 40 in the past two years. Spain has recently extended its corporate governance principles, which promote key components of ESG, to private companies. In the UK, stakeholders are increasing pressure on companies to improve the quantity, quality, and transparency of various ESG data and indicators. In Japan, almost 400 companies in the First Section of the Tokyo Stock Exchange have implemented integrated reporting (ESG) compared to less than 20 companies in the US S&P 500 index. In Australia, the NGOs and investors pressure companies to disclose ESG issues especially on environmental issues. There is a demand for clarity that companies are working towards global transition into a low-carbon economy.

“The CEO is key in this ESG work. The CEO has to be committed to ESG in order to really move the needle.”

“ESG has become part of our strategy sessions as a permanent topic.”

“Have to make it part of everyday line work. So, we are now pushing it down into the business to make sure it is part of the daily operation not just an alibi discussion. It is the board’s role to push it into the line...”



Digitalization progresses in the Nordics - but plenty of work is still to be done in the online and customer interface domains

Apart from ESG, digitalization is another major theme for Nordic companies. Most chairs (60 percent) of Nordic companies rate themselves as being either good or excellent in terms of digitalization, 35 percent as adequate, and only 5 percent poor.

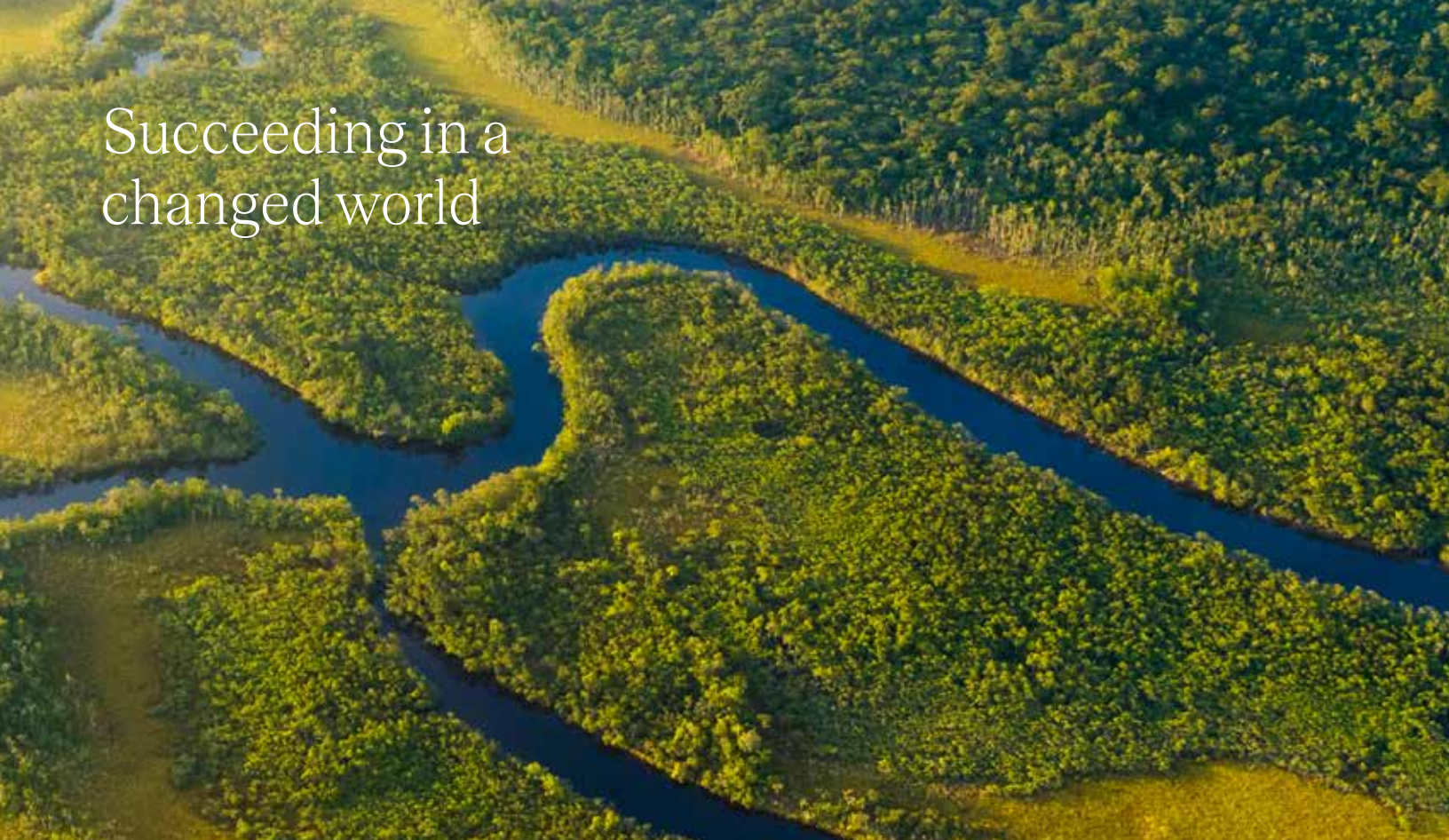
Across the industries, Nordic companies are looking for efficiency through digitalization. Chairs described their efforts to focus on digitalizing businesses and products. Industrial companies seek to make their machines more intelligent while customer-facing industries are seeking way to connect and understand their customers. Customer-facing companies look for holistic digitalization with online sales and production.

In our discussions several chairs brought up similar topics: advanced AI, customer data, data analytics, and data protection are seen as the key elements in the future. Especially data analytics and advanced AI are considered huge potential business opportunities. Furthermore, COVID has also pushed in motion new ways of digital (remote) working. Here, hybrid work models will enter both the boards and the everyday corporate life.

Discussions over problematics of digitalization ranged from how to have a unified and genuine digitalization roadmap implemented in the organizations, how to get the people involved and changing their old ways, and how to inspire people to seek new digital business models. Furthermore, some chairs pointed out the difficulty of finding the right capabilities and competences to pursue their digitization efforts - even if there is a will, are there enough right people to secure the implementation?



Succeeding in a changed world



We see the same megatrends in our Nordic Board Study as are visible at a global level. As for board diversity, the Nordics show record high numbers in terms of gender equality. Sustainability and digitalization are visibly the next focus areas for the boards. Correspondingly to global board trends in terms of sustainability, pressure arises from multiple stakeholders, e.g., investors, public, and regulatory authorities, but also from the boards themselves. The sustainability and ESG mindset are already well rooted in the Nordic company philosophy. We found this when our interviewed chairs were defining their ideal future CEO profile.

COVID changed the world for good. It pushed the Nordic companies into a hybrid working model which will continue both in the board level as well as in the corporate working level. Companies are still finding their way to adapt to the new normal, but it is for sure here to stay. A few face-to-face meetings are considered an absolute must, but online working will find its way to the future board rooms.

Board compensation model became a heated discussion topic and almost every chair anticipated its imminent change in the near future. Competition for high-grade international talent is fierce and Nordic board chairs feel that the compensation packages have to match other global

boards. As the Nordic companies grow their footprint in the world, the need to internationalize the boards will become crucial. However, this compensation dilemma will be solved if the government ownership companies can be convinced that these changes are needed regardless of the public sentiment that perceives board fees sometimes already too high.

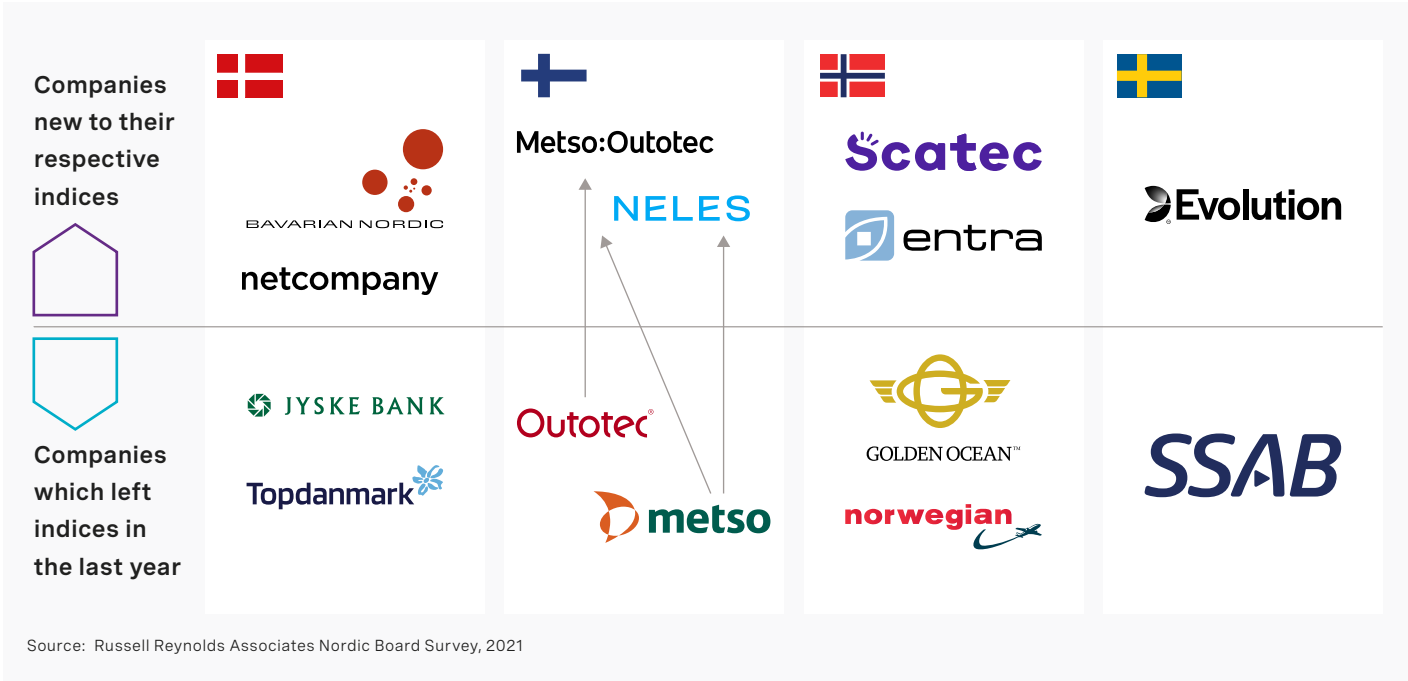
Furthermore, the Nordic companies pursue their digitalization efforts to become more efficient internally (e.g., business process and intelligent products) and externally (client interface and client understanding). Every industry has its own paradigm, but we found common denominators in future focus on data analytics and advanced AI as well data protection (cybersecurity).

It will be interesting to see how the companies hold into their sustainability and ESG plans, how digitalization will play out, and how board diversity will increase in the near future. So far, the Nordic companies are on a global level on the forefront and pioneers of sustainable acts and leadership diversity issues. After the discussions with the leading chairs, we feel confident that the companies are working hard to become even better in these matters.

Appendix: Changes in the OMX/OBX company mix since 2020 study

The major changes in the current board indexes were: 1) in Denmark, Bavarian Nordic and NetCompany came to the list while Jyske Bank and Topdanmark went off. 2) In Norway, Scatec Innovation and Entra rose to the list while Norwegian Air Shuttle and Golden Ocean dropped off. 3) In Finland, the Neles spin-off from Metso and the merger of Metso

and Outotec rehased the index. 4) In Sweden, Evolution Gaming Group rose to the list while SSAB went down. ABB and AstraZeneca were not taken into account in this study as they are prominently listed elsewhere (e.g. NYSE, SIX, LSE).



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References

1. The total amount of Nordic studied OMX/OBX indexed companies is 105. Therefore, Russell Reynolds interviewed over 41 percent of the current chairs. Note that some interviewees serve as chairs in more than one of these boards.
2. Russell Reynolds Associates and UN Global Compact, "Leadership for the Decade of Action," 2020, pp. 12-15.
3. Russell Reynolds Associates, Global & Regional Corporate Governance Trends, 2020.
4. For example, in Finland, the census data shows that the foreign language speakers (not Finnish, Swedish, or Sami) were 17 times higher in 2019 compared to 1990. Source: Tilastokeskus, *Numbers and shares of persons with immigrant background by area, 1990-2019*. In Norway, first-generation immigrants without Norwegian background are 14 times higher in 2021 when compared to 1970. Source: Statistisk sentralbyrå, *Immigrants and Norwegian-born to immigrant parents*
5. Russell Reynolds Associates, Global & Regional Corporate Governance Trends, 2020.

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Russell Reynolds Associates is a global leadership advisory and search firm. Our 470+ consultants in 46 offices work with public, private and nonprofit organizations across all industries and regions. We help our clients build teams of transformational leaders who can meet today's challenges and anticipate the digital, economic and political trends that are reshaping the global business environment. From helping boards with their structure, culture and effectiveness to identifying, assessing and defining the best leadership for organizations, our teams bring their decades of expertise to help clients address their most complex leadership issues. We exist to improve the way the world is led.

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