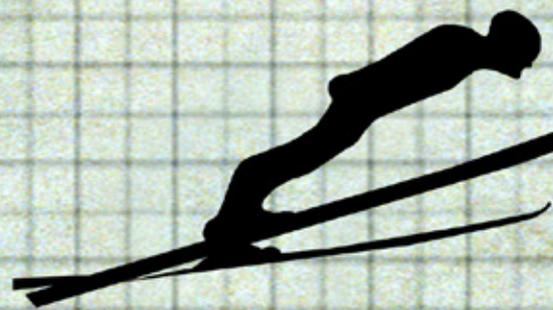


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# How Nordic Boards Create Exceptional Value



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# How Nordic Boards Create Exceptional Value

**Lars Faeste, Ketil Gjerstad, Tomas Nordahl, Knut Olav Rød, Tuukka Seppä, Roope Talasmaa, and Johan Öberg**

June 2016

## AT A GLANCE

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Corporate lifespans are shrinking in today's volatile environment. For example, 1 in 3 listed US companies will die or be acquired within the next five years—up from 1 in 20 just 50 years ago. To survive, companies need active boards that spot disruptions and help management think several years ahead. A BCG study of Nordic companies, which consistently rank among the world's top value creators, offers insights into how all companies can promote long-term success.

### **TOP BOARDS TAKE AN ACTIVE ROLE IN VALUE CREATION**

Best-in-class boards demand world-class performance, discuss strategy throughout the year, and continuously challenge the core assumptions underlying the strategy. Their members have specific capabilities and experience to support the strategic priorities, and they foster a culture that values feedback and constructive debate.

### **MANY BOARDS DO NOT SUFFICIENTLY UNDERSTAND THE BUSINESS**

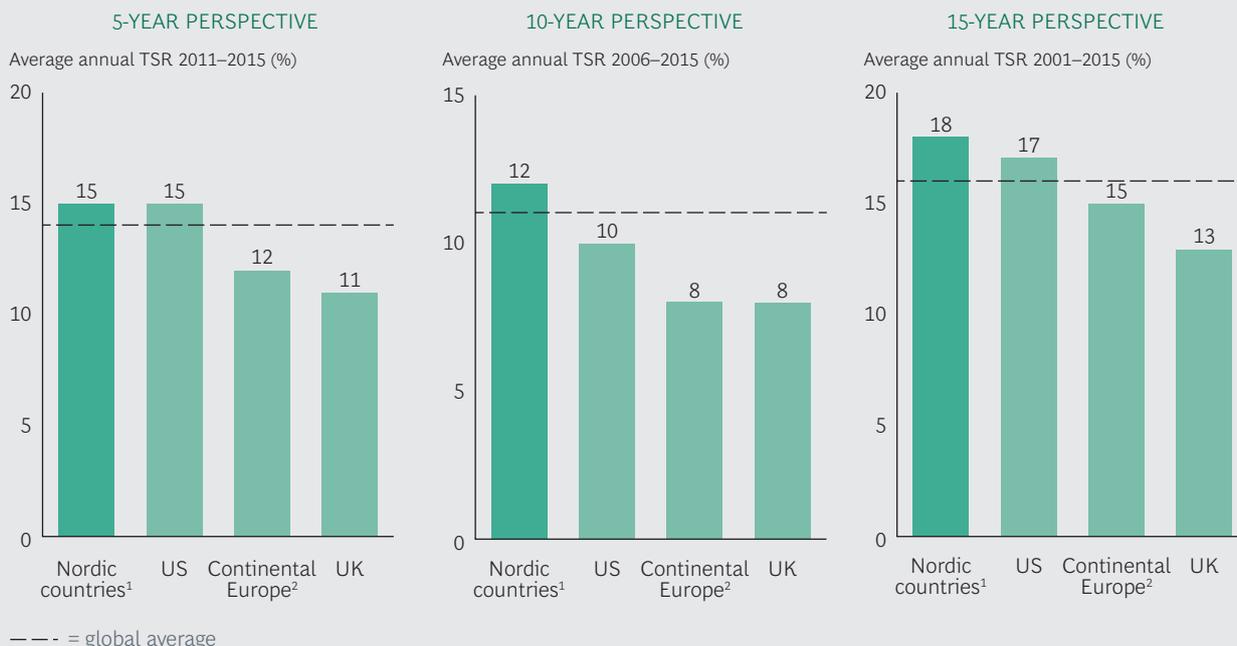
Expertise in the board room is more critical than ever, but our research found that more than a third of executives do not think their board sufficiently understands the business. And most CEOs do not think their board engages actively with customers or management below the CEO. Yet more-active boards are better positioned to understand the business and, thus, challenge the company's direction.

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**Y**EAR AFTER YEAR, NORDIC companies outperform the global average in The Boston Consulting Group’s annual study of value creation. This impressive feat holds true whether we look at annualized returns over time periods of 5, 10, or 15 years. (See Exhibit 1.) Nordic companies’ superior performance is also evident across most industries.

While many factors contribute to Nordic companies’ superior returns, we believe these companies’ unique model for corporate governance plays an important role. The Nordic model establishes a board of directors that does not include any of the company’s executives. This nonexecutive board’s responsibilities include appointing and monitoring the CEO, approving the corporate strategy, and overseeing legal compliance and risk management.

### EXHIBIT 1 | Nordic Companies Have High Shareholder Returns



**Sources:** S&P Capital IQ; BCG analysis.

**Note:** TSR, or total shareholder return, is calculated as the annualized return for each of the time periods shown for companies whose market capitalization is \$100 million or more. The calculation uses a value-weighted average across companies within each region. Percentages are rounded.

<sup>1</sup>Denmark, Finland, Sweden, and Norway.

<sup>2</sup>Represented by Germany, Austria, Switzerland, and the Netherlands.

Although the Nordic model shares some attributes of the two more widely used governance models, key differences give Nordic nonexecutive boards a more active role in steering their company. (See the sidebar “A Comparison of Governance Models.”)

In a recent study, BCG sought to understand the best practices that enable nonexecutive boards to create superior value for the company’s owners. While previous research on the nonexecutive board’s role has primarily considered governance issues, our study is distinctive in that it focuses on the board’s role in value creation.

In conducting the study, we interviewed more than 50 CEOs, chairmen and -women, and nonexecutive board members of leading Nordic companies and surveyed more than 100 other CEOs and nonexecutive board members of Nordic companies. (See the sidebar “Expert Participants in Our Study.”) These participants work for companies that have total revenues of approximately €430 billion (\$482 billion), equal to 30% of Nordic countries’ GDP. Although the research considered only Nordic companies, we believe that our findings are relevant globally.

Impressively, all of the Nordic CEOs we surveyed believe that their company’s non-executive board understands the factors that promote high performance. In con-

## A COMPARISON OF GOVERNANCE MODELS

Despite country-specific variations, the Nordic corporate-governance model is distinctive for establishing a powerful nonexecutive board that is separate from the executive management. The model establishes a direct hierarchical chain of command running from the shareholders’ general meeting to the board to the management. This structure gives the board a unique role, empowering it to act with the shareholders’ mandate to directly control the management. Through this mechanism, the Nordic model aligns the management’s incentives with those of the shareholders and strikes an effective balance between risk taking and stability. The nonexecutive board also has a clear role in determining the company’s overall goals and strategy.

Like the Nordic model, the two-tier model used in continental Europe establishes a separate nonexecutive

board, called the supervisory board. But, unlike the Nordic model, the continental Europe model limits this board’s power to appointing and dismissing (only for a material reason) the executive directors and vetoing certain management proposals.

In contrast to both the Nordic and continental Europe models, the one-tier model often used by companies in the UK and the US establishes a single board comprising both nonexecutive and executive members. In practice, though, the recent pressure to increase the number of nonexecutive directors and give them a greater role has meant that non-executives dominate the boards of most large companies. Even so, especially in the US, the CEO also serves as the board chair of many large companies. (A study found that 56% of S&P 500 companies had a combined chair and CEO in 2015.)

## EXPERT PARTICIPANTS IN OUR STUDY

We thank the following chairmen and chairwomen, board members, and executives for their valuable contributions in discussing the topics and findings of this report. (This list includes only those who have agreed to make their names public.)

### Denmark

Ole Andersen  
Flemming Besenbacher  
Anders Colding Friis  
Niels Jacobsen  
Eivind Kolding  
Peter Kürstein  
Jesper Lok  
Jens Due Olsen  
Michael Pram Rasmussen  
Vagn Sørensen

### Finland

Sari Baldauf  
Helene Biström  
Berndt Brunow  
Jorma Eloranta  
Stig Gustavson  
Taavi Heikkilä  
Antti Herlin  
Kim Ignatius  
Jouko Karvinen  
Tapio Korpeinen  
Matti Lainema  
Mikael Lilius

Raimo Lind  
Markku Pohjola  
Juha Rantanen  
Bo Risberg  
Matti Ruotsala  
Risto Siilasmaa  
Eeva Sipilä  
Heikki Westerlund

### Norway

Karl-Christian Agerup  
Wenche Agerup  
Odd Christoffer Hansen  
Ole Eirik Lerøy  
Jo Lunder  
Anders Misund  
Egil Myklebust  
Harald Norvik  
Dag Opedal  
Olaug Svarva  
Leif Teksum  
Kim Wahl

### Sweden

Leif Johansson  
Tom Johnstone  
Ronnie Leten  
Johan Molin  
Mikael Ohlsson  
Per-Arne Sandström  
Helena Stjernholm  
Lars Westerberg

trast, a survey of CEOs globally by Colin Carter and Terry Atkinson found that only approximately two-thirds held this view about their board. CEOs in our study also nearly universally involve the board in urgent strategic decisions. Such results suggest that the best practices of Nordic companies may serve as a model for companies in other regions that seek to promote greater board involvement in strategy and value creation. We also identified clear improvement areas for Nordic companies and a wide variety of practices for addressing these issues.

## Today's Business Environment Requires More-Active Boards

Nonexecutive boards have traditionally focused on their legal duties of manage-

ment oversight and selecting the right CEO to lead the company. However, trends in today's business environment have made it imperative for boards to add to these responsibilities by taking a more active role in supporting management's efforts to steer the company and create value for its owners. The ever-present threat of global competition means that boards must help promote world-class performance in order to foster success. And the need to ensure renewal in the fast-changing and unpredictable business environment means that boards must actively look for disruptive trends, expand the management agenda's boundaries, and help top executives think several years ahead.

The consequences of not adapting are severe. A BCG study found that public companies traded in the US now have a 1-in-3 chance of failing in the next five years—up from 1 in 20 just 50 years ago. (See “Die Another Day: What Leaders Can Do About the Shrinking Life Expectancy of Corporations,” BCG Perspectives, December 2015.)

A clear delineation of roles is a prerequisite for greater board activism. The CEO is responsible for running the company and making operational decisions; board members should not undermine this authority by giving directions to management. However, board members must ensure that the company succeeds and creates value.

Although greater board activism is generally recognized as essential during times of distress, it may not seem necessary when the company is performing well and the executive team is on top of things. But companies that disregard the importance of board activism during prosperous periods do so at their peril. It is especially important during good times for boards to challenge the assumptions underlying the strategy and help executives spot important trends and weaknesses that they may be overlooking. This activism is essential for averting difficulties three to five years down the road and for identifying developments that the company can exploit.

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Companies that disregard the importance of board activism during prosperous periods do so at their peril.

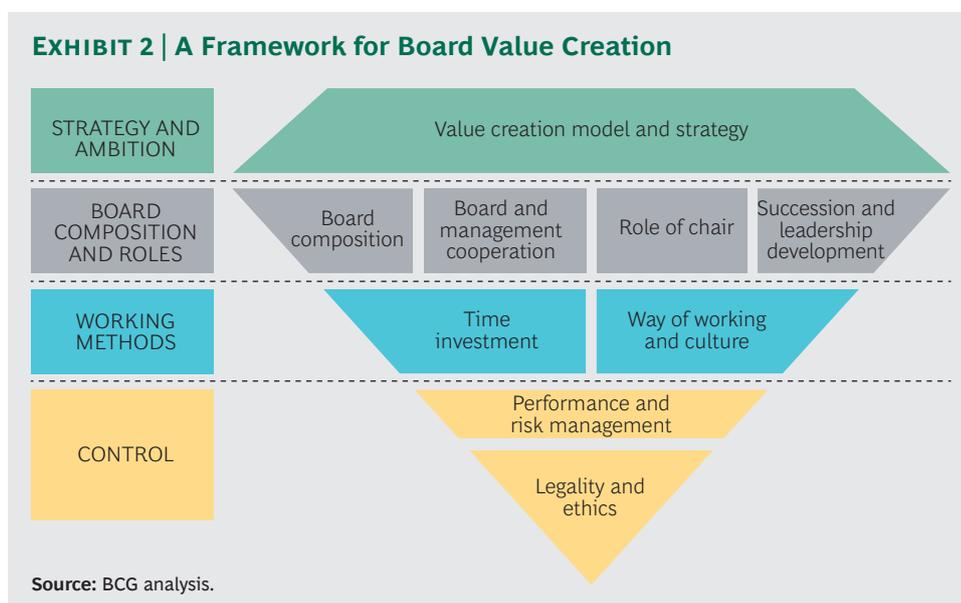
A company's ownership structure often influences its governance practices. At companies with a clear “anchor owner”—such as a family, state, private equity firm, or controlling shareholder—the owner, board, and management usually collaborate closely to develop the strategy and value creation plan. Our survey found that the CEOs of these companies are more likely to say that the board adds value (78% for companies with an anchor owner versus 60% for companies with dispersed ownership). Conversely, CEOs from companies with dispersed ownership were twice as likely to be unsure or to disagree when asked if their board adds value (40% for companies with dispersed ownership versus 22% for companies with an anchor owner). Consequently, we believe that companies with dispersed ownership would, on average, benefit the most from improving the board's role and work.

## A Framework for Board Value Creation

In analyzing the board's role in value creation, we identified nine key topics within four broader categories. (See Exhibit 2.)

Below, we focus on the four topics that board members and executives cited as most relevant to boards seeking to take a more active role: value creation model and strategy, way of working and culture, time investment, and board composition.

## EXHIBIT 2 | A Framework for Board Value Creation



### VALUE CREATION MODEL AND STRATEGY

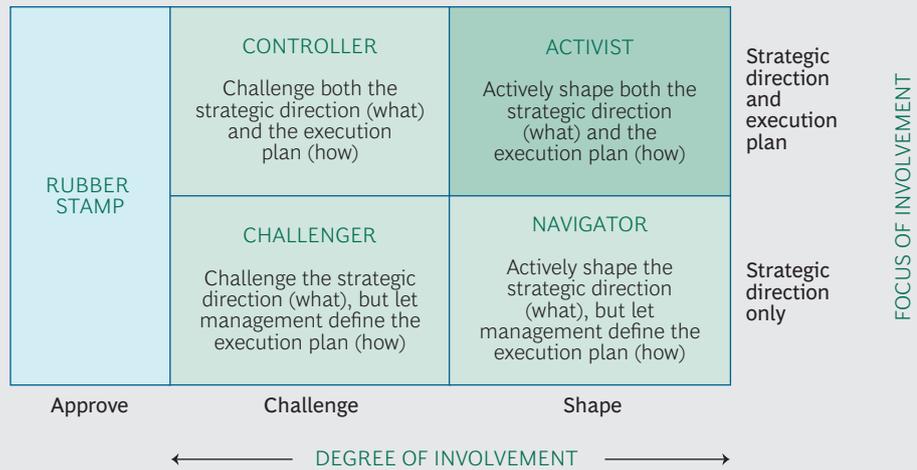
The survey respondents overwhelmingly supported the propositions that Nordic boards add value to their companies (86%) and contribute effectively to strategy (84%). And almost all respondents (98%) agreed that the CEO involves the board in urgent strategic decisions.

However, the interviews revealed a variety of opinions regarding the board's ideal role in value creation and strategy. Two dimensions emerged as critical in determining board members' ideal role in strategic discussions: the degree of involvement (being either a challenger or a more active shaper) and the focus of involvement (being focused on the strategic direction alone or on both the strategic direction and the execution plan). (See Exhibit 3.)

The board's ideal role in strategy development depends on the context, which explains the variety of views shared with us. Still, although there is no objectively right answer when deciding on the board's role at any given time, a number of factors can point to the need for the board to take a more active role:

- The company is undergoing a transformation or about to embark on one. (See the sidebar "The Board's Role in a Transformation.")
- The company is in financial distress.
- Early indications of fundamental shifts in technology or market dynamics suggest the need to reassess future success factors.
- The surrounding environment is especially unpredictable, increasing the need for adaptability and board involvement in shaping the strategic direction.
- Opportunities exist for structural changes in the industry, such as major mergers.

### EXHIBIT 3 | The Nonexecutive Board’s Role Differs Depending on the Desired Degree and Focus of Involvement



Source: BCG analysis.

Note: Regardless of their role in strategy, board members are responsible for legal duties, such as management oversight and CEO selection.

## THE BOARD’S ROLE IN A TRANSFORMATION

In our discussions with Nordic chairs and other board members, the following six imperatives emerged for boards seeking either to spot trends that may signal the need for a transformation or to support a transformation once it has been initiated.

**Look “around the corner” to understand and react to key trends.** The board should identify the trends affecting the company and work with the CEO to adjust the company’s strategy before the trends alter the business landscape. As one chairman explained, “You need to be paranoid about how the world is changing” and then assess how the company should respond to the changes.

Keeping an ear to the ground within the organization and among customers is essential for staying on top of

new developments. Early course adjustments in response to emerging trends can avert the need to transform under duress three to five years down the road.

The company can also identify opportunities to proactively transform before its competitors do. Spotting and reacting to changes while in a position of strength confers a significant advantage compared with transforming when the company is in trouble.

**Find a CEO with the skills and motivation required to lead the transformation.** If a transformation is needed, one of the board’s fundamental roles is to ensure that the right CEO is in place to lead the company. Finding the right CEO is especially important during a transformation; shepherding the company

through the necessary changes requires particularly strong leadership and business skills.

More than 60% of the transformations that BCG supports are undertaken either shortly before or shortly after the appointment of a new CEO.

**Attack the transformation on three fronts.** First, fund the journey by launching short-term, no-regrets initiatives that will significantly improve the bottom line as well as ensure that the organization has the capabilities to execute.

Second, win in the medium term (two to four years) by choosing a strategy, business model, and operating model that will enable a fundamentally different competitive position.

Third, build the right team, organization, and culture to position the organization for sustainable high performance.

**Ensure alignment between the board and the CEO.** The organization needs to know that the board fully supports the CEO and that both the board and the CEO support the company's new direction and execution plan. Additionally, it needs to be clear that the CEO—not the board—makes all the operational decisions.

When the board and the CEO are aligned on the direction, it is also easier to form a relationship of trust in which the chair also acts as a

“sparring partner” for the CEO outside of formal situations.

**Focus on the board's composition and use of time.** During transformations, boards meet as often as weekly and the chairman might be required to be involved several times per week. To effectively support the transformation, the board needs a small and dedicated team that can devote adequate time and be available on short notice to meet and make decisions.

Further ways to enhance the support provided by the board include recruiting a chair or board member with transformation experience, involving experienced external advisors, and establishing a special task force committee within the board to focus on critical transformation topics.

**Closely monitor the transformation's implementation.** Understanding the status of the transformation program is critical to a board's efforts to support the management in making course corrections.

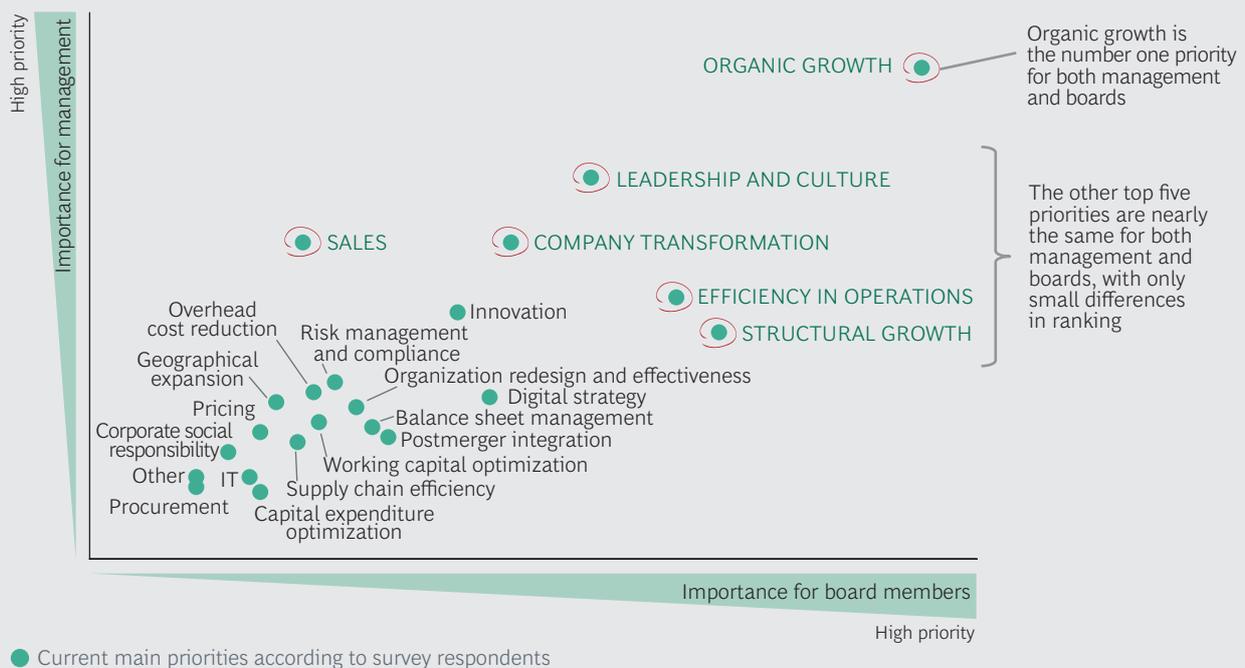
Many of the chairs we interviewed believe that boards need to devote greater time to discussing the progress of implementation during a transformation, and BCG's experience supports this view.

Regardless of how active a role the board assumes, it should seek to set the company on a value creation trajectory in both the medium term (the time frame that private equity firms emphasize) and the long term. It should ensure that the company constantly has avenues and opportunities for reinventing itself in the event that its core business encounters significant difficulties. The company can either continuously improve its core business while laying the groundwork for reinvention or pursue a comprehensive transformation that seeks a more profound change in its trajectory.

To fulfill its role, the board must continuously challenge the management’s core assumptions. As noted, challenging assumptions is particularly important when companies are performing well, because that is when they face the highest risk of incumbent complacency or hubris. And taking advantage of a “healthy paranoia” to challenge assumptions is not solely defensive; it can also help the company spot shifts in competitive or market dynamics that may signal opportunities to adapt to the changing environment before the competition.

In addition to determining the right way to support the management in strategic work, the board needs to clarify the company’s strategic priorities. Our survey responses indicate that board members and executives are generally like-minded about the current top priorities, indicating that they are having effective dialogues about strategic priorities. Both groups cited organic growth as their top priority. (See Exhibit 4.) The other top five priorities for both groups were efficiency in

#### EXHIBIT 4 | Management and Boards Generally Agree About Current Priorities



Source: BCG Nordic Board of Directors and CEO Survey 2016.

Note: Survey responses from board members and CEOs in the Nordic region (n=95); weighted ranking (on a scale of 1 to 100).

operations, leadership and culture, company transformation, and either structural growth (such as M&As and joint ventures) or sales (for example, sales force excellence).

### **WAY OF WORKING AND CULTURE**

Board members and executives recognize that the traditional process of reviewing corporate strategy once a year has become outdated in today's rapidly changing business environment. Developing a dynamic and adaptable strategy requires an iterative process in which the board can discuss and challenge strategic topics throughout the year, including reviewing industry trends and early indications of company performance.

At leading companies, the board strives to discuss relevant strategic themes or options during every board meeting, rather than once a year. These companies also conduct at least one "drill down" meeting every year to thoroughly discuss and assess the company's current situation and strategic options. In addition to laying the groundwork for decisions on strategy, the drill-down meetings are often seen as a good opportunity for the board to interact more broadly with the management team beyond the CEO.

The board can also engage more deeply in strategic topics throughout the year by closely monitoring the implementation of the approved strategy. This is particularly important when the company is experiencing financial difficulties or undergoing a transformation. The management should provide the board with full transparency into the status of implementation and the issues that arise so that board members know which topics require greater attention. However, board members need to let management make all the operational decisions, as well as be conscious of the impact that their questions may have on executives' daily work.

Additionally, our study identified a number of other best practices relating to the board's way of working and culture. (See the sidebar "Six Rules for the Board's Way of Working.")

### **TIME INVESTMENT**

The study found a wide variety of practices with respect to how board members invest their time. Indeed, the clearest improvement opportunities for many Nordic boards relate to time investment. Several topics warrant attention.

**Committing Enough Time Overall.** The board's role is more time-consuming today than it was ten years ago, and some of the chairs we interviewed questioned whether all board members are committing enough time to it. One chairman explained that, during the transformation's most intensive year, the board and its committees convened for more than 60 meetings, each several hours long, with almost 100% attendance throughout the year. These board members were convinced that this was essential to making large-scale change happen.

**Devoting Adequate Time to Strategy.** Participants expressed concern about whether adequate time is spent specifically on strategy and value creation. An overwhelming 80% of board members and almost 90% of CEOs stated that the board should

## SIX RULES FOR THE BOARD'S WAY OF WORKING

Interviewees' recommendations can be distilled into six rules.

**Ensure that strategy is discussed throughout the year.** Strive to place strategy on the agenda of every board meeting, such as by picking a specific strategic topic to discuss or reviewing the implementation progress of a key strategic initiative.

**Demand world-class performance.** Make achieving world-class performance an imperative. Help management understand what "world class" means in terms of results (for example, a total shareholder return exceeding 15%) and the key execution steps. If the board believes the company is falling short of world-class performance, it needs to overcome any reluctance to launch a transformation.

**Continually challenge the core assumptions on which strategy is based.** Be paranoid about how the world is changing and whether the assumptions on which the strategy is based hold true. Get fresh perspectives by periodically inviting promising young executives from customer-facing teams or topic specialists to attend board meetings. Use these discussions to test your assumptions about the competitive environment, the company's strengths and weaknesses in customers' eyes, and technological developments.

**Demand thorough preparations for board meetings to enable substantive discussions.** Before each board meeting, ensure that management provides board members with "preread" materials that frame the

issues, alternatives, and decision points. Always choose among options. Never approve a yes-or-no decision without first evaluating and considering the options, and never make major decisions on the basis of what is discussed in only one meeting. All board members should come to the meeting prepared to engage. The meeting is for meaningful discussions, not for repeating information from the preread materials.

**Endorse a culture of feedback.** At least once a year, convene the board without the CEO to discuss board members' opinions of the CEO. Then, the chair should have a separate session with the CEO to share the feedback. The chair should also give each board member feedback on his or her performance at least once a year. Likewise, the CEO should convey the management's perspective on the board's performance to the chair.

**Promote open communication and constructive debate.** A culture of openness, honesty, and direct communication is essential to enable this way of working. Encourage board members to form and express their own opinions and to debate in an informed, unemotional, and respectful way. As one chairman put it, "The boards that are most likely to fail are those that are afraid of conflict." Do not allow politics or personal agendas to influence actions—and assume that fellow board members' actions reflect the best intentions. The board must act as a team, rather than a collection of individuals. It is the chair's role to ensure the right dynamics for this teamwork.

spend more time on strategy and value creation. The ideal increase in the allocated share of time ranged from 25% (board view) to 50% (CEO view). For both groups, these increases would raise the time allocated to value creation and strategy to approximately 60% of their total time spent on board matters.

**Allocating Time Effectively.** Boards must also use their allocated time more effectively, and nearly 30% of both CEOs and board members see room for improvement. Many of the chairs we interviewed were especially concerned that the board's ineffectiveness in addressing its many other responsibilities reduced the amount of time it can devote to strategy. By using the audit committee and other committees more effectively, the board can give appropriate attention to addressing its nonstrategic topics, while freeing up more time to discuss strategic topics. An important caveat is that board members cannot delegate their legally mandated or ethical responsibilities. Each board member must also set aside adequate time to delve into the topics discussed by committees and raise topics for broader discussion as appropriate. Some boards have expanded their use of committees by setting up special task forces to address important strategic topics, such as digitization. This can strengthen board members' understanding of these topics and enhance the quality of support they provide to management.

**Understanding the Business.** The ineffective use of time appears to prevent board members from understanding the business as well as they should. Several interviewees raised concerns about board members' knowledge of the business. These concerns are echoed in the survey responses: 36% of CEOs disagreed or were unsure when asked whether board members are sufficiently knowledgeable about major business issues. (See Exhibit 5.)

**Engaging Actively with Customers and the Organization Below the CEO.** We believe that board members' knowledge of the business is directly linked to how actively they seek information from multiple sources—for example, customers and management below the CEO—to form their own views regarding the relevant topics. One chairman encouraged taking an “active listening” approach: “The modern chairman doesn't say a lot, but listens to a lot of people and forms a view.”

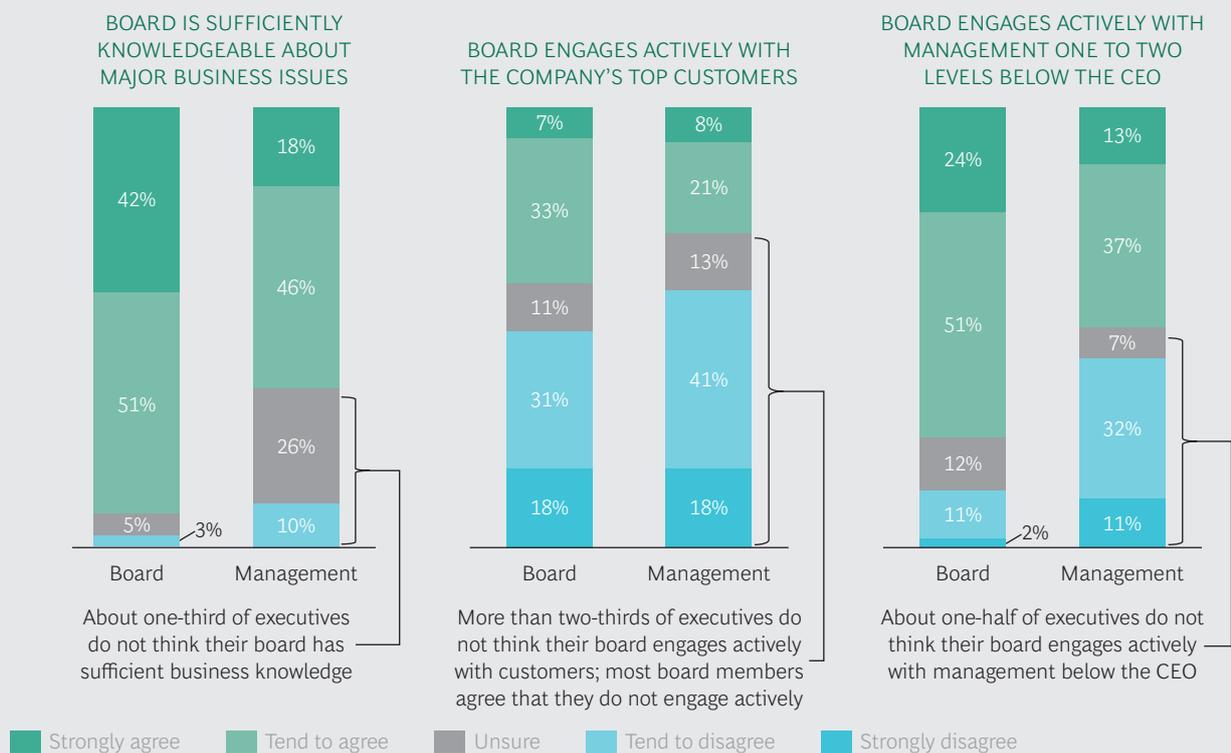
Our survey found that surprisingly few boards take an active-listening approach to engaging with the company's customers. More than 70% of CEOs and 60% of board members do not think the board engages actively with the company's top customers. Despite the importance they place on tracking industry trends and early indicators of changes in the markets, board members are failing to gain a sufficient understanding of customers.

Insufficient time spent interacting with management one or two levels below the CEO is a related area of concern. Such interactions help board members not only to understand the business but also to assess the suitability of internal candidates for the CEO's role. However, only half of the CEOs surveyed believe the board engages actively with the management one to two levels below the CEO. This finding may also help to explain why a significant share of survey respondents (more than 60% of CEOs and almost 35% of board members) think the board is only somewhat effective or not effective in talent management and succession planning.

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One chairman advocates an “active listening” approach: “The modern chairman doesn't say a lot, but listens to a lot of people and forms a view.”

## EXHIBIT 5 | Many Boards Do Not Sufficiently Understand the Business



Source: BCG Nordic Board of Directors and CEO Survey 2016.

Note: Survey responses from senior board members and management executives in the Nordic region (n=95).

Notably, these results differ depending on the ownership model. At companies with a clear anchor owner, 77% of boards interact with management below the CEO, compared with 53% in companies with dispersed ownership. The interaction appears to promote more effective talent management and succession planning: 67% of boards of companies with anchor owners consider themselves to be effective in talent management and succession planning, compared with 50% for companies with dispersed ownership.

To further increase board members' exposure to the business, some progressive boards have adopted the practice of periodically inviting a promising young executive or topic specialist to give a presentation on a new or timely topic at a board meeting. For example, a frontline manager can offer valuable perspectives on changes in customer expectations or the competitive landscape. The board members use these sessions to understand how the assumptions behind the current strategy may have been affected by changes in industry dynamics and consumer behavior or technological developments.

Importantly, any interactions between board members and management or customers should occur with the CEO's support and not serve to undermine the CEO. When meeting with management or customers, board members should focus on asking questions and listening to the responses, rather than presenting their own

opinions. Most chairs who supported this type of approach emphasized a strict protocol: The board should make all decisions as a group, when it convenes for meetings, and the chairman should communicate these decisions to the CEO. Board members should never bypass the CEO in giving new information or guidance to management or customers.

## BOARD COMPOSITION

Board composition was a significant concern for our research participants. Without prompting, most interviewees highlighted composition as the starting point for effective and value-oriented board work. Several expressed the view that, beyond the chair, typically only two or three board members are active in supporting strategy and value creation. The rest are too passive or too singularly focused on other topics, or they lack the necessary capabilities.

When asked whether the mix of skills on boards is appropriate, nearly one-third of executives surveyed either disagreed or were unsure. Concerns about Nordic boards' skills were especially prominent with respect to digitization. More than 80% of our survey respondents believe that digitization will deeply affect their company, yet only 50% think that their board has the right skills to support the management in digital topics. Additionally, fewer than 50% think that the company has a clear digital strategy and roadmap in place, and only slightly more than 50% think that their board is actively pushing the digital agenda.

In our interviews with board members and executives, five factors emerged as most important when considering the mix of skills to include on the board:

- **Capabilities to Support the Strategic Priorities.** A board needs the specific capabilities to support the company's strategic priorities, especially in the case of a transformation. For example, if growth in China is a top priority, the company should consider appointing former executives of other companies who successfully led growth initiatives in China. Boards with the specific capabilities and experience to support the strategic priorities are more likely to understand the business and, thus, are better positioned to challenge the company's direction.
- **Suitable Experience, Including Fostering World-Class Performance.** Most board members should have experience in the company's industry or in related or similar industries—and potentially its customers' industry, provided that there are no conflicts of interest. Board members should know what it means for a company to be world class and should have experience fostering world-class performance. Without this type of experience, it will be difficult for board members to help management consistently outperform the company's peers or succeed in a major turnaround or transformation. However, a company should avoid appointing its former CEO or CFO to the board. A previous leader may get too involved in operational issues, or other board members may be reluctant to challenge the assumptions underlying decisions made during his or her tenure. Former CEOs or CFOs of other companies, however, are often good candidates for the board.
- **Diversity of Thinking.** Interviewees also stressed the value of having board members with diverse backgrounds. A diversity of thinking among board mem-

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Board members should know what it means for a company to be world class and should have experience fostering world-class performance.

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Boards need a balance of personalities, including both challengers and integrators.

bers makes it more likely that they will challenge the traditional way of doing things and find new approaches. Interviewees emphasized that this diversity of thinking is not always linked to diversity of age, education, or nationality, though those factors are often correlated. An important component of diversity is to have a mix of tenures, achieved through periodic turnover among board members. Many interviewees believed that the optimal tenure for a board member is five to eight years. Board members may need one or two years to truly understand the company and provide maximum value; after seven or eight years, on the other hand, board members may become too complacent and their value may start to diminish.

- **“Skin in the Game.”** Board members should usually own shares in the company so that their incentives are aligned with the company’s objectives. Having an ownership share appears to incentivize board members to pursue their beliefs more aggressively and invest more time and effort to achieve successful outcomes. As one long-term board member explained: “Having skin in the game doesn’t affect how I think about the business. However, it has a huge impact on how hard I fight for what I believe to be the right direction.”
- **A Well-Functioning Team.** Beyond experience and incentives, boards need a balance of personalities, including both challengers and integrators, and all members should be willing to express their independent views. The chair has an essential role in ensuring the optimal mix of personalities and styles among board members, as well as establishing efficient onboarding processes, setting clear expectations, and serving as a role model.

Many CEOs and chairs we interviewed said that private equity firms employ best practices to achieve the optimal board composition for their portfolio companies. For example, these firms invest heavily in finding board members who possess relevant experience to support well-defined strategic priorities. And they require that board members and top executives have a substantial stake in the company so that these individuals’ incentives are aligned with those of the company’s owners.

## Getting Started

To assess how well the board currently supports value creation, the owners, board members, and the CEO should consider the following questions:

- Given our company’s context, what is the ideal role for the board with respect to the degree and focus of its involvement in value creation and strategy?
- Does management provide board members, in advance of meetings, with “preread” materials that frame the issues, alternatives, and decision points, and do the board members come to meetings prepared to engage so that time is used for substantive discussions?
- Does the board employ an iterative process to discuss strategic topics and assumptions throughout the year, instead of including strategy as an agenda item for only one meeting each year?

- Is the board proactive enough in looking “around the corner” to spot emerging opportunities and threats and in challenging the core assumptions underlying the strategy?
- Does the board devote enough time to value creation and strategy? Can board members make more effective use of committees so that they can spend more time on strategy and value creation?
- Are board members getting sufficient exposure to customers and management below the CEO, in order to deepen their understanding of the business and its market environment and support decision making and succession planning?
- Does the board have the right mix of skills and experience to challenge and support the management in pursuing the top strategic priorities?

For many companies, the answers to these questions will point to opportunities to thoroughly review the variety of issues discussed in this report. In many cases, the best practices of Nordic companies will offer critical lessons for enhancing the board’s engagement in value creation over both the short and long terms.

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