

HOW NORDIC COMPANIES CAN WIN THE '20s

By Anders Fæste, Martin Reeves, Thomas Jensen, Børge Kristoffersen, Santeri Kirvelä, and Mai-Britt Poulsen

THE BUSINESS ENVIRONMENT IS changing at unprecedented speed. Global phenomena such as demographic shifts, an emerging new geopolitical order, and climate change are reshaping markets, while technological advancements such as big data, AI, and the Internet of Things are transforming the way companies compete and organize.

These trends point to a competitive environment in the next decade that will be much different from today's. Business leaders therefore must not be fully consumed by near-term issues; they must also get ahead of these trends.

BCG has set an agenda for business leaders to prepare their companies to succeed in the coming decade. It consists of five imperatives:

- **Master the new logic of competition.** Understand the new dimensions of competitive advantage, the changing significance of scale, and the strategic implications of the emerging business environment.
- **Design the company of the future.** Adapt organizational structures and processes, human skills, and management mindsets to unlock and scale the underlying value of technological advancements.
- **Apply the science of organizational change.** Adopt a rigorous, de-averaged approach to change management and build internal capabilities to execute ongoing transformation—which will be necessary to stay competitive in a more dynamic environment.
- **Embrace the business imperative of diversity.** Create a diverse and inclusive company culture to expand the variety of ideas and capabilities, accelerating innovation and increasing resilience.
- **Optimize for both social and business value.** Fulfill a broader purpose and make a positive impact on social and ecological issues—not only financial performance—in order to survive and thrive in the long run.

These imperatives will apply broadly across countries and regions, including in the Nordic countries (Denmark, Finland, Norway, and Sweden). Businesses in the region are not immune to the increasing pace of change: of the ten highest-valued public companies at the beginning of this decade, only half remain on that list today, and a new wave of innovative challengers promises continued disruption.

But the starting point for this agenda will vary by country and region. We share here our high-level perspective on the starting point for Nordic companies for each imperative—a strength to build on or weakness to address—and the implications for leaders as they look to the future and chart their course for the decade ahead.

Master the New Logic of Competition by Accelerating the “Rate of Learning”

As the amount of available data explodes and the insight-mining capabilities of AI advance, companies are able to learn more, and more quickly, than ever before. This new capability is becoming a competitive necessity. The winners of the next decade will be the organizations that *compete on the rate of learning* by interpreting and acting on new signals in the market faster than their rivals.

This can be a challenge for Nordic companies, whose headquarters are geographically distant from the companies that are doing the most to reinvent their business models around AI and learning, which tend to be located in the US and China. A clear example can be seen in retail, where companies such as Alibaba and Amazon have rapidly disrupted the market with their customization of offerings and speed of service, forcing their peers to rapidly rethink their business models and ways of working.

While Nordic leaders are well advanced in piloting AI projects, they are less so in scaling the technology throughout their companies and business models. Only 73% of Nordic AI pioneers report having

realized business value from AI, compared with 87% of pioneers in the rest of the world—showing a clear gap in the ability to make the most of new learning technologies.

If the gap in translating AI capabilities into business impact persists, Nordic companies (and their peers throughout Europe) will risk falling further behind as the technology becomes even more powerful. Today’s disparities signal that the current approaches to AI and other new technologies are insufficient—Nordic leaders must find ways to stay plugged into what leading companies are doing and to adapt their business models to leverage new learning technologies.

Design the Company of the Future by Focusing People on Higher-Level Capabilities

Success in the coming years will take more than new technology and business models—it will require leaders to reinvent their organizational structures and processes. A few Nordic companies have already demonstrated the capacity for organizational innovation, but designing companies for the *next* decade will mean more than adopting agile ways of working and acquiring new skills. Leaders will have to integrate algorithms throughout their organization; institute flexible systems and new models of management; and refocus human cognition on higher-level functions that cannot yet be automated.

One area where people still have an advantage over technology is *imagination*. Generating new ideas is increasingly important: not only is the business context changing faster, reducing the shelf life of products and business models, but also long-term growth rates have declined in many developed countries, including in the Nordics. In three of the four Nordic countries, average GDP growth in the first two decades of the 21st century has been half what it was in the two decades preceding it. As a result, companies can no longer rely on participating passively in aggregate growth—they must imagine and

then realize new offerings and business models. However, imagination is difficult to achieve in large businesses, perhaps because other goals, like efficiency and financial optimization, have a more measureable and immediate payoff.

To better understand the role of imagination in Nordic business, we surveyed 136 business leaders across the region. The opportunity and the challenge were clear: 97% of leaders regarded imagination as vitally important, but 80% said it is difficult to harness it in large companies. Exacerbating the challenge is a gap between executives' aspirations and the experiences of employees at other levels: C-suite participants generally said their company fulfils several conditions necessary for imagination—such as having effective mechanisms for sharing and inspiring others with new ideas and giving employees enough free time to allow for inspiration—but a majority of other respondents disagreed. (See the exhibit.)

Across the Nordics, leaders expressed an appetite for and broad encouragement of imagination, but they often lacked explicit approaches for managing imagination and scaling new ideas. There are exceptions: our survey shows the Nordic companies most admired for their imagination—Spotify, Ikea, and Kone—represent a range

of industries and ages. (See the sidebar.) By learning from such pioneers, all Nordic businesses may be able to compete on the emerging imperative of imagination.

Apply the Science of Organizational Change

In order to embrace new ways of competing and organizing, leaders will need to re-invent and transform their companies—and they must do so more often. However, today's approaches to large-scale change are often insufficient: more than 75% of corporate transformation programs fail.

Some Nordic leaders have demonstrated the ability to turn around struggling companies and restore their positive trajectory. For example, Husqvarna underwent a major reorganization that strategically positioned the company for success in embracing new technologies and environmental challenges; and Nokia's successful transformation journey positioned it as the world leader in network infrastructure.

However, as the pace of change increases, businesses will face a wider variety of transformation challenges—the need to turn around not only underperforming companies but successful ones, too, to keep up with changing circumstances, even when the desired end state is unknown.

Imagination Is an Imperative—but There's a Perception Gap in Nordic Companies

STATEMENT	AGREE/SOMEWHAT AGREE (%)		Gap (in percentage points)
	C-Suite	Other Levels	
In-depth discussions at our company flow effectively between the abstract (big ideas, vision) and the concrete (specific opportunities, blocks to overcome)	71	48	-23
There are effective mechanisms for sharing and inspiring others with new and stimulating ideas across our company	56	37	-19
Processes, structures, products, and services at my company are often reimagined	55	37	-18
Our company leaves employees with enough free mental capacity and time to allow for inspiration	60	46	-14
Our company takes deliberate steps to expose employees to the unfamiliar in order to create inspiration and enrich mental models	51	40	-11

Source: BCG survey of 136 Nordic business leaders.

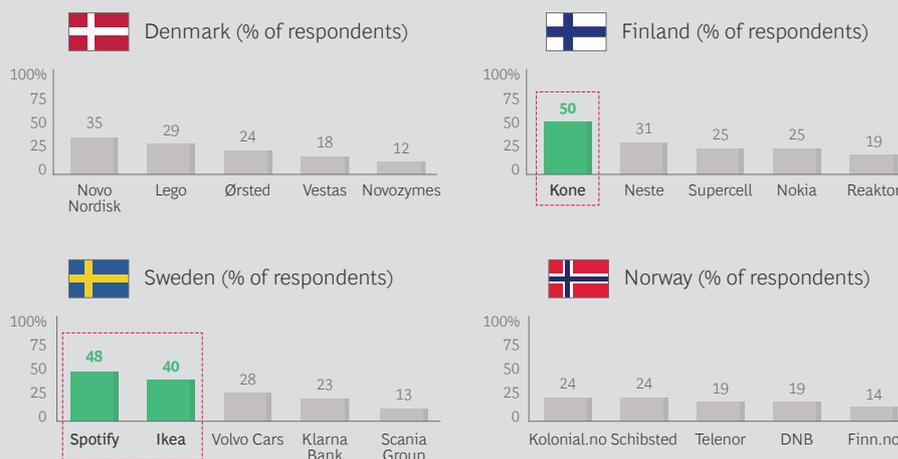
WHICH NORDIC COMPANIES ARE THE MOST IMAGINATIVE?

As part of our survey of Nordic business leaders, we asked participants, “Which companies operating in the country you are based in do you admire as being imaginative?” Each participant could select up to five companies in their country of operation.

Spotify, Ikea, and Kone were widely admired as being imaginative, with each

named by at least 40% of respondents in their home countries. (See below.) There was less consensus in Denmark and Norway, where the leading companies were Novo Nordisk (35%) and Kolonial.no (24%) and Schibsted (24%), respectively. Contrary to the view that imagination is the realm of startups, these results show that companies of all ages and in all industries can be imaginative.

Imagination Is Not Just for Startups



Source: BCG survey of 136 Nordic business leaders.

Note: Responses to the question, Which companies operating in the country you are based in do you admire as being imaginative? Each respondent could select up to five companies in their country of operation.

These challenges will require a new toolkit for transformation—one that incorporates an evidence-based mindset and a wider range of approaches that are tailored to the situation at hand. Nordic leaders share these challenges with their peers in other parts of the world; all will need to rethink their approaches to organizational change.

Embrace the Business Imperative of Diversity by Leading on More Dimensions

Research results are clear: more diverse companies deliver more revenue from innovation and higher financial returns to stakeholders. Additionally, diversity under-

pins resilience, which will be increasingly necessary in the face of political, economic, and social shocks. Having a diverse team is therefore not only an ethical imperative but increasingly a business one.

Nordic countries have a significant diversity advantage, ranking best in the world on overall gender diversity.¹ However, they are still far from perfect and do not show enough signs of improvement: all four countries have been downgraded since 2006 on the dimensions of female economic participation and opportunity, female educational attainment (with the exception of Finland), wage equality, and the share of women in leadership roles.

Furthermore, different dimensions of diversity tend to have additive effects, so leaders need to take into account dimensions such as educational background and nationality. Here Nordic companies do not perform as well: for example, they often have difficulty in employing the segment of the population born outside of the Nordics.² To overcome the challenges presented by diversity and leverage it as an advantage, Nordic leaders must apply the same rigor they would to any other performance lever: committing to a clear objective, developing concrete and tailored actions, continually measuring progress, and assigning clear accountability for results.

Continue to Lead on Social Issues

Critical societal issues are changing the game of business, forcing leaders to focus on creating social value as well as economic value—and threatening the current model of business itself. Addressing these issues can have a financial upside: research shows that companies that have a positive total societal impact (TSI)—the aggregate of their impact on society—boast higher margins and valuations. Focusing on social value will therefore be an important component of competitive advantage.

Nordic companies are clearly in the lead here. Sixty-five percent scored in the global top TSI quintile, the world's best-scoring region by far. This outstanding performance is driven by many stakeholders: investors, who measure and engage with companies on their TSI performance; government policymakers, who are early and ambitious movers; and the Nordic public, which has a profound impact on the way companies within their borders operate.

This leading position constitutes a potential competitive edge for Nordic companies, but in order to unlock it leaders must maintain awareness and urgency and intensify their efforts. This includes embedding social value into the strategy process, focusing on sustainable business model innovation, and partnering with the public and private sector to make progress on intractable social and environmental issues.

Nordic companies might be in the lead today, but they should expect the competition to increase as other nations' leaders and investors begin to adopt more systematic approaches to sustainability. At the same time, planetary challenges and mistrust of business will likely intensify. Nordic leaders should be prepared to fight to remain pioneers in this area. It will not be easy. Nordic companies (especially publicly traded ones) will face the constant challenge of balancing the demands from the stock market to constantly improve financial results as well as delivering on longer-term social KPIs. Investors and board members therefore play an important role in ensuring that the Nordics can maintain their long-term focus.

An Agenda for Nordic Companies

To keep up with the accelerating pace of change, and to avoid falling behind fast-changing companies in the US and China in particular, Nordic companies should consider an agenda tailored to their starting points—their strengths and weaknesses:

- To win the dynamic competition of the next decade, Nordic leaders must compete on the rate of learning by mastering AI and new technologies. While they can lean on strong experience in piloting AI initiatives, they must focus on scaling and extracting their full business value. They must also create the ecosystems necessary to shape the business environment.
- To win in designing a company that combines the best of technology and people, Nordic leaders must build companies that encourage people to imagine and innovate. They must also evolve their organizational capabilities and processes, including flexible systems, new business models, and a new model of management.
- To win in transforming their organizations, Nordic leaders, like their peers in other parts of the world, must feel a sense of urgency and be proactive in tailoring their approaches to each of the

change challenges they face. Continual transformation is going to be an inherent part of operating their businesses.

- To win on diversity, Nordic leaders, while building on a solid foundation in gender diversity, must continue to close the gap between women and men. Furthermore, to benefit fully from diversity, Nordic leaders must deconstruct their relatively uniform collective world and build diverse and inclusive companies. This includes hiring people from various educational backgrounds and national origins.
- To win in optimizing both social and business value, Nordic leaders must use

their advantage in this area and intensify their efforts by, for example, promoting new legislation and partnering with peers and researchers, including investing in startups to maximize TSI.

We invite all Nordic business leaders to join the conversation about the outlook and agenda for what it will take to win the '20s.

NOTES

1. World Economic Forum, [The Global Gender Gap Report 2018](#).
2. OECD, [Foreign-born employment data](#) (aggregation of data from 2014 to 2017).

About the Authors

Anders Fæste is a managing director and partner in the Copenhagen office of Boston Consulting Group and leads BCG's Health Care practice in the Nordics. You may contact him by email at faeste.anders@bcg.com.

Martin Reeves is a managing director and senior partner in the firm's New York office and the chairman of the BCG Henderson Institute. You may contact him by email at reeves.martin@bcg.com.

Thomas Jensen is a managing director and senior partner in BCG's Stockholm office. He leads the firm's Consumer practice in the Nordics. You may contact him by email at jensen.thomas@bcg.com.

Børge Kristoffersen is a managing director and senior partner in the firm's Oslo office. He leads the Operations practice in Central Europe, the Middle East, and Africa. You may contact him by email at kristoffersen.borge@bcg.com.

Santeri Kirvelä is a managing director and partner in BCG's Helsinki office. He is a core member of the Technology Advantage and Technology, Media & Telecommunications practices and a member of BCG Digital Ventures. You may contact him by email at kirvela.santeri@bcg.com.

Mai-Britt Poulsen is a managing director and senior partner in BCG's Copenhagen office and the firm's global chief of staff. You may contact her by email at poulsen.mai-britt@bcg.com.

About the BCG Henderson Institute

The BCG Henderson Institute is Boston Consulting Group's strategy think tank, dedicated to exploring and developing valuable new insights from business, technology, and science by embracing the powerful technology of ideas. The Institute engages leaders in provocative discussion and experimentation to expand the boundaries of business theory and practice and to translate innovative ideas from within and beyond business. For more ideas and inspiration from the Institute, please visit <https://www.bcg.com/featured-insights/thought-leadership-ideas.aspx>.

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we help clients with total transformation—inspiring complex change, enabling organizations to grow, building competitive advantage, and driving bottom-line impact.

To succeed, organizations must blend digital and human capabilities. Our diverse, global teams bring deep industry and functional expertise and a range of perspectives to spark change. BCG delivers solutions

through leading-edge management consulting along with technology and design, corporate and digital ventures—and business purpose. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, generating results that allow our clients to thrive..

© Boston Consulting Group 2019. All rights reserved. 10/19

For information or permission to reprint, please contact BCG at permissions@bcg.com. To find the latest BCG content and register to receive e-alerts on this topic or others, please visit bcg.com. Follow Boston Consulting Group on Facebook and Twitter.

