

Bold moves to forge Nordic champions

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The Nordic region has historically been the home of some of the world's most lauded companies. A long tradition of engineering preeminence has led to Swedish car brands becoming household names, Norwegian energy companies becoming global leaders, Danish consumer goods brands exciting consumers around the world, and a Finnish pulp mill's name becoming synonymous with the growth of cell phones. Sadly, long histories count for little today.

And the world is changing. The dramatic acceleration of technological development means that some of the world's biggest companies have only emerged over the last 10 to 20 years. Pockets of the Nordic technology sector continue to flourish, with companies such as Spotify and Klarna leading the charge. However, the world's center of gravity has shifted since the turn of the century, with Asia in general and China in particular becoming economic powerhouses as the middle classes there expand rapidly. Sustainability is another force changing the rules of the game, and one where the Nordics have a favorable starting point, given their set of leading companies, long-term focus, and regulations. In sum, today's global champions have a very different

genesis to that of the previous generation's, and technology now creates the opportunity for companies to achieve global scale extremely quickly.

As the world has evolved, Nordic companies are trailing their global peers in terms of growth and scale. The long-standing imperative to catch up and overtake has been intensified by COVID-19. Senior executives should use their response to the crisis to address their overall strategies—deciding which bold moves to make based on the experiences of resilient companies and those that have delivered sustained profitable growth. This can shape the way to forging new Nordic champions.

Time to accelerate

The Nordics (Denmark, Finland, Norway, and Sweden) account for approximately 10 percent of GDP in Europe, but since the 1990s, only five or six companies from the region have made it onto the list of Europe's 100 largest. The region also lags behind Italy, Germany, and France in the Financial Times' list of the 1,000 fastest-growing companies, even when adjusted for population.

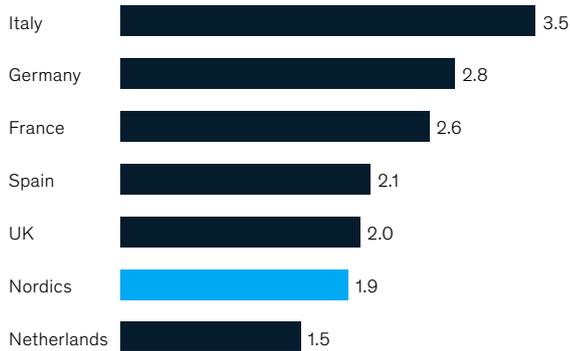
The challenge is not unique to the region. Europe overall is losing ground in terms of creating global giants. A 2018 analysis of the top 100 companies by market capitalization found that 18 companies from China and 13 from the US were founded in the past 30 years; by contrast, no new company from Europe founded in the same period made the list. The result

is that Europe is now home to just 20 percent of the world's largest 100 companies, down from 40 percent in the 1990s and 2000s. But the Nordic region's position within Europe is surprising given its historical track record of building globally significant companies (Exhibit 1).

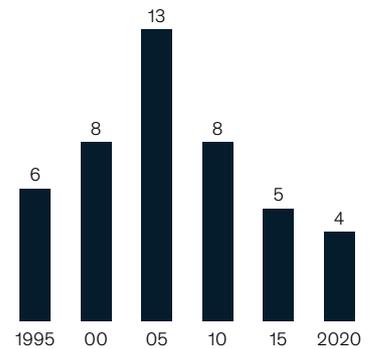
Exhibit 1

Nordics are being outpaced by global competitors

Number of companies per million inhabitants on Financial Times 1000: Fastest Growing European Companies 2019



Evolution of Nordic companies on Fortune 500



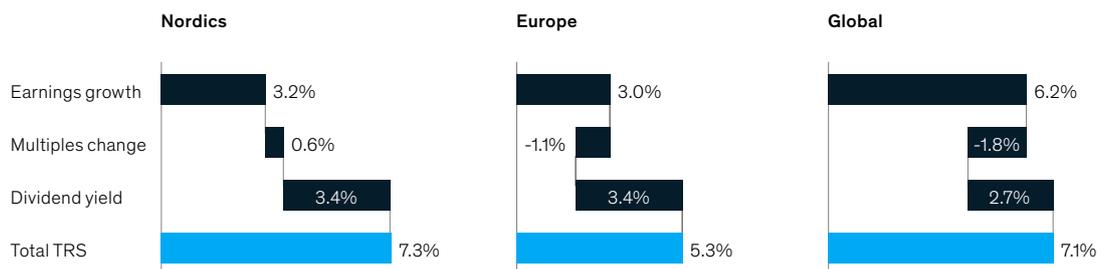
There is, however, some good news. Companies in the region have historically generated impressive shareholder value. Total return to shareholders grew, on average, by 7.3 percent a year from 2005 to 2019—2.0 and 0.2 percentage points higher than the European and global averages, respectively.

But this strong performance of total return to shareholders has not come from top- or bottom-line growth. In fact, earnings growth in the region lags behind global peers by 3.0 percentage points. Instead, it has come from more stable multiples relative to other regions, and from healthy dividends. (Exhibit 2)

Exhibit 2

Nordics trailing Global peers on earnings growth

Total Return to Shareholders decomposition
2005–2019 CAGR (%)



So how can companies build on these strengths to drive growth? It is instructive to look at McKinsey’s research into the distribution of economic profit of the world’s 2,394 largest listed companies from the mid-2000s to the mid-2010s. At its heart, business strategy is about beating the market—in other words, defying the power of “perfect” markets to push economic surplus back to zero. Economic profit (the total profit after the cost of capital is subtracted) measures the success of that defiance by showing what is left on the table after the forces of competition have played out. We wanted to see what it takes for a company to move from the middle 60 percent of companies, which create almost no net value, into the top quintile, where all the value is created. For much more detail on the analysis, we

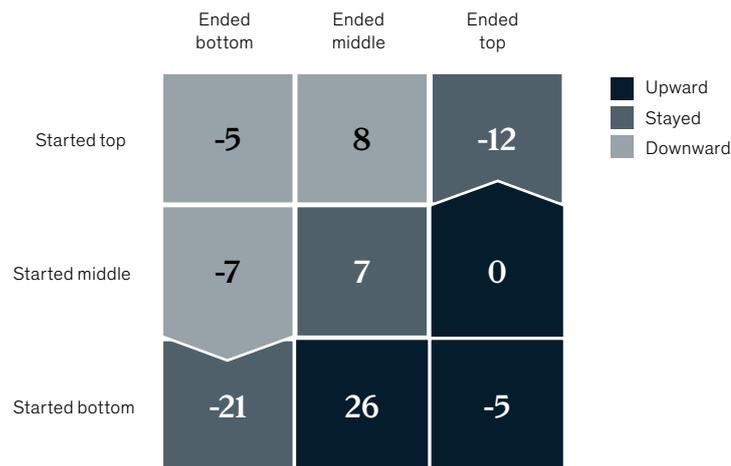
recommend reading [Is your strategy good enough to move you up on the power curve?](#)

Exhibit 3 shows how the 62 Nordic companies on the list compare to the global average in terms of moving along the “power curve” of economic profit distribution. It shows that companies in the region have converged in the middle. More companies in the region have moved to or stayed in the middle than the global average, while fewer have made it into or stayed in the top quintile. Examples of companies that have moved up the power curve are Vestas and KONE, which started in the bottom or middle quartiles and moved to the top quartile—whereas the likes of Ericsson, Atlas Copco, and Telenor have remained in the top quartile throughout the period.

Exhibit 3

Difference between Nordic companies and all companies

Percent, all companies N=2,394; Nordic companies N=622



Economic power is a function of both size and profitability, and all the evidence clearly indicates that Nordic companies are falling behind in terms of scaling their businesses. Overcoming this challenge and reasserting the region’s position as a base for world-leading companies is made harder given the economic uncertainty caused by the COVID-19 crisis. Harder, but not impossible. First, let us look at the bold moves that companies have made to forge ahead and recapture profitable growth.

The bold moves that lead to profitable growth

Companies that move into the top 20 percent of the economic profit curve make a combination of five bold moves. Moreover, the impact of these moves is additive; the more moves a company makes, the better its chances of moving up the curve.

- Programmatic M&A: Make at least one deal per year, with no single deal greater than 30 percent of market capitalization but collectively adding up to 30 percent of the company’s market capitalization over 10 years.

- Resource reallocation: Shift capital expenditure across the portfolio so that more than 60 percent of annual capital expenditure is allocated to different business units.
- Capital expenditure versus peers: Make the annual ratio of capital expenditure to revenue greater than 1.7 times the industry median.
- Productivity improvement: Be in the top 40 percent in the industry in terms of SG&A productivity improvements and in the top 30 percent for labor productivity improvements.
- Differentiation improvement: Be in the top 30 percent in the industry in terms of gross margin improvement.

Companies in the Nordic region have been making some of these moves, especially productivity improvements and M&A, but fewer than one in ten have tackled capital expenditure, compared to 16 percent globally, and only one in five have reallocated resources appropriately, compared to one in four globally. In the future, reallocating resources to important agendas such as sustainability may be increasingly important.

Global champions with a Nordic flavor

In general, the region has a strong base on which to rebuild its position as the home of globally important champions. A number of Nordic companies are already at the forefront of this transition, such as Ørsted, Neste, and Northvolt. Also, we have seen examples in recent years of Nordic businesses scaling globally, e.g., EQT, which has become one of the largest global investors based out of the Nordics.

Both new technology companies and some traditional giants have the potential to emerge as world beaters. But more midsize companies with global ambition need to join them. The race is only getting tighter as technological change accelerates and other regions experience much faster growth than Europe.

Nordic countries are already leaders on some of the most important issues on the broader global agenda, such as sustainability; these issues will drive the creation of new global champions. Innovating at scale while safeguarding the Nordic flavor will be essential.

“Nordic companies, incubated in countries with the highest levels of trust between business and society, have a unique opportunity to cater to needs across the globe and drive change in areas such as digitalization & sustainability. It’s time for brave decisions and accelerated action to grab that opportunity!”

Christian Sinding, CEO & Managing Partner, EQT

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The Nordics are home to leading companies that inspire and shape society, and play an important role in some of the biggest issues we face. The region has many of the ingredients needed to win, such as sustainability.

However, as our research shows, there is work to do and capital needed, if these companies are to make bold moves and scale fast in order to forge the next generation of global (not just Nordic) champions.

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