

## Interview with Svein Rennemo: Chairman, Statoil

*Boyden's Board of Directors Series* is a collection of papers that address the challenges of identifying and attracting new directors suitable for today's business environment. These papers explore the critical need to improve corporate oversight and governance in a world of change – and how it can be accomplished.



Svein Rennemo  
Chairman, Statoil

In this Board of Directors Series special edition features a one on one interview with Norway's Svein Rennemo, Chairman of Statoil, one of the world's largest energy companies. He discusses the extra pressure on boards for oversight, checks and balances involving chairmen, Norway's progressive governance system and mandating female board members.

Svein Rennemo was CEO of Petroleum Geo-Services ASA from 2002 until 1 April 2008 (when he was appointed Chair of the board of Statoil ASA). From 1994 to 2001, Rennemo worked for Borealis, first as deputy CEO and CFO and, from 1997, as CEO.

He held various management positions in Statoil from 1982 to 1994, latterly as head of the petrochemical division. During the period 1972 to 1982, he was an analyst and monetary policy and economics adviser at Norges Bank (the Norwegian Central Bank), the OECD Secretariat in Paris and the Ministry of Finance.

Mr. Rennemo also serves as Chair of the board of Tomra Systems ASA and Pharmaq AS. He is an economist trained at the University of Oslo.

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**Boyden: It has been about three years since you began as Chairman. Was the chairmanship what you expected and what have been the biggest surprises in the company and industry?**

**Rennemo:** Well, I think the chairmanship has been broadly as expected, if anything more demanding with respect to time. Of course, this is very logical related to the big changes in the economy and the industry over the last three years. Oil prices have been unpredictable and markets have definitely changed. This has made it very exciting but also time consuming.

**Boyden: It's time consuming in what ways?**

**Rennemo:** Time consuming in terms of number of board meetings and in terms of the necessity to follow up on issues. One has to try to understand the environment, the market and the market dynamics.

**Boyden: So while you do not have a day-to-day operational role, there is just more oversight involved?**

**Rennemo:** You could say that. I think the time put in by the whole board of directors over these three years has increased immensely for all companies in all industries. It's nothing unique to Statoil.

**Boyden: Since the financial crisis, boards especially in markets such as the UK and US, have been under more pressure to ensure oversight and performance. Is this extra pressure on boards warranted?**

**Rennemo:** I think it is because the situation was not just a financial crisis. But also a failure of governance and proper risk management. We should appreciate that shareholders are reminding us as a board of the importance of good risk management and managing your balance sheet, of focus on cash flow and performance, and also of the importance of macroeconomic understanding, core competencies and focus of the board.

When I think back over the financial crisis, in all non-financial sectors we were focusing

on supply and demand and the market outlook for our respective industries. But the collapse in the financial sector and in business confidence underlines the importance of taking a broad perspective on managing a company and understanding the overall macroeconomic environment in which you are operating.

**Boyden: What is unique to governance in Norway?**

**Rennemo:** Perhaps I wouldn't say every point is unique to Norway but there are three things which I see as important in our system. First is the fact that we have a two-tiered board structure. It means that there is a board of directors consisting only of non-executives and then we have a management board or an executive committee headed by the CEO. That is one difference from the Anglo-Saxon model.

Second, we have a nomination committee for the directors of the board which is elected directly by the shareholders. It is a nomination committee which is outside of the board and independent of the board. It strengthens the external perspective on the board and board performance and also addresses some of the independence issues which I see debated within the Anglo-Saxon system quite frequently.

Third, the state is a majority or a large owner of some of the biggest Norwegian public companies. That underlines the importance of the role of the board to secure the rights of the minority shareholders and shareholder democracy in general.

**Boyden: The partnership of Norway's business, government and citizens is based on trust. In other markets, often there's great distrust of leaders in business and government. What's your perspective on how Norway has achieved this and what can be learned by others?**

**Rennemo:** I do believe that the increased critical focus on business and business leaders is a universal trend. Norway is no exception. But perhaps we have managed some of the triggers of this distrust in a slightly better way than abroad. For example,

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with respect to executive compensation models, we have probably followed a more moderate path over time. At the same time, Norway is an extremely egalitarian society which means that also we have active debates around the issue of top executive compensation.

The government ownership stake in some of the largest public companies is also an important factor. That contributes to a higher degree of transparency more probably than in some other markets. As companies we need to emphasize both how we perform and also how we are perceived as companies and corporate citizens.

In addition, the importance of a predictable government is a key part of the Norwegian model. The government as an owner behaves as any other professional owner and that is the key of the total model. But when you ask if there is something for other countries to learn, well I would say that learning probably travels less well across country borders.

I will say, however, that transparency is critical and good predictable government is important. And finally, I would argue that a higher degree of moderation than what I have seen in some the Anglo-Saxon economies with respect to top executive compensation is a good thing.

**Boyden: Are you saying that there are other structural issues that really have nothing to do with board regulation? Or that there are structural issues in the economy and system which have to be taken care of first?**

**Rennemo:** The issue of executive compensation is a very important signal to the outside world about our values. Therefore, the system of the shareholders voting and giving feedback to the board of directors or the general assembly on their compensation practice is a very good and a positive development. We've had this system in Norway for several years and it works.

**Boyden: Norway has drawn great attention for its mandates on women directors. In addition to the importance of more female directors, was this really pointing companies to bring greater diversity in the boardroom beyond race and gender, but, in addition, more diversity in experience and less "group think"?**

**Rennemo:** I would not pretend to have a better answer on this than others. The new law in Norway regulating the share of women on corporate boards focused on gender equality. While the change overall has been a positive one and it has also brought other successes, the shift coincided in time with a generally stronger focus on the pro-activeness of boards, the importance of good governance and a generally more professional approach to governance in Norway and internationally.

What we have achieved relates to a new female board cohort. Board members are typically younger with a slightly different perspective on how to run a company than the "old guard." They tend to come more from, or typically more from, middle management and top management in companies, which I think reinforces the emphasis on execution and the organization's ability to execute a strategy. I think that is a positive change.

Finally, they are typically better educated than the older board members. Of course, this is part of society change in general. But all these changes contribute to something broader in terms of diversity apart from gender. Diversity is not for having — it is for using. You get the new competencies and different skills and that is good if you are able to manage it as a board. The old model of filling up the boards with "grumpy old CEOs" is not a good approach for the future.

**Boyden: In general, where do you see the biggest gaps to be filled on boards to achieve better governance?**

**Rennemo:** I do think the most relevant gaps with respect to board governance are more

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board - and company-specific than they are general. In this context, I strongly believe in a formal annual evaluation of the board, an evaluation of the board processes and competencies, as well as an evaluation of the individuals' contributions on the board.

I also believe benchmarking of our board's practices relative to other companies is a very useful exercise.

It's also important to get feedback from management on how we perform as a board.

You need to rely on a third party as an external expert, to help you do the evaluation because a board evaluation which is controlled from start to end by the chairman is, in my opinion, not the most effective way to approach it. It's all about how can we define a specific improvement and create an agenda where we can build the strength of the board and better serve the company in creating shareholder value.

**Boyden: So you're emphasizing that the chairman does not have the final say or at least that there are a checks and balances for this?**

**Rennemo:** There is no single person within the board who can do more harm or more good than a chairman. Therefore, it is critically important that the chairman gets a fair share of feedback and evaluation on how he or she runs the board and how he or she leads the board for the benefit of the company.

**Boyden: In Boyden's just completed Board Series covering European governance, many experienced directors said over the past few years in board recruitment there has been too much emphasis on financial expertise and not enough on operational experience or functional know how such as in technology. Do you agree?**

**Rennemo:** I agree. While I may be wrong on this, I also think that this is already changing in the sense that, what I observe is stronger push to recruit people with operational,

technological and market competencies onto boards.

Thus, what we are after to recruit to a board is not the narrow financial expert or the narrow technology expert. It is managers or executives with some experience in managing technology or managing financial control or financial management. It's the broad experience we are looking for. But I would agree they are sometimes difficult to find.

**Boyden: One top UK non-executive director interviewed for the Boyden Board Series said all the new regulations have pushed board members to spend too much time "box ticking" and less time focused on "doing the right thing" for the company and shareholders. What's your perspective?**

**Rennemo:** In a way "box ticking" is a threat to good governance in the sense that if we end up there and neglect the other issues, we are committing a huge mistake. However, today I see a different reality in my "own" companies. We spend very little time on "box ticking" as such.

Of course, the committees are helping the board to focus on what really matters. That is strategy and strategy execution. I feel that we are on the right track but I can see that for companies dealing with a number of the deepened regulations that challenge could be bigger.

**Boyden: How would you describe your management style?**

**Rennemo:** That's probably changed over time and hopefully evolving.

I emphasize involving and mobilizing all the board members to step forward and share their perspectives. Second, I have always been an executive who emphasizes questions. It's important to seek questions for debate and share thoughts and beliefs before you hopefully make the right decision. Third, I believe in openness, the emphasis on inviting criticism, listening to comments

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and views, and accepting counterarguments. That is particularly important to me.

### **Boyden: What do you look for when recruiting directors?**

**Rennemo:** The nomination committee outside the board recruits the directors. My advice to them would be to focus on the ability to fill the competence gaps which we have defined as part of our board evaluation. That's critical for the further development of the board. Then I look for the ability to reason and judge on a broad basis rather than on the very specific competency area. Finally, I want individuals who have the ability to manage their own egos. Big egos should have very little room in professional board work.

### **Boyden: What's the greatest lesson you've learned in business?**

**Rennemo:** Perhaps that your personal integrity is your biggest asset. In certain situations it's your only asset. That is really what you have. Guard it and watch it and develop it.

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