

The Scandinavian Way

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The Scandinavian countries' labor and education policies, management style, and ability to innovate have in recent years been popular around the world. Foreign politicians and many others have been sent here to learn how we do it. Read about what Scandinavian management is capable of, and about the challenges the management style faces if the Scandinavian countries are to remain in the lead.

By Troels Theill Eriksen, [Martin Kruse](#) and [Gitte Larsen](#)

When Europe needs vision, it looks increasingly often to the Nordic area. The countries to the north have managed to create a welfare system with free education, public support plans, and a well-developed public health service. The Nordic countries top the international rankings of the most competitive regions in the world despite their having some of the highest taxes in the world, and despite their workers working fewer hours than those of almost any other country. Measured in GNP per capita, the Nordic region, if defined as one country, is among the richest in the world, surpassed only by Luxembourg, Switzerland and Ireland. Moreover, the five Nordic nationalities are some of the world's happiest. How is it possible?

The special and so-called Scandinavian model is a big part of the answer to the question. Pragmatism, consensus, and "down-to-earthness" have allowed the Nordics to find their own third way, where equality and socialism from the east are combined with freedom and market forces from the west. You can read more answers by reading the latest member report from the Copenhagen Institute for Futures Studies, *The Scandinavian Way* (see box).

Not least, the Danish flexicurity model attracts foreign attention, and is discussed widely in international periodicals and newspapers such as Newsweek, the International Herald-Tribune, and the Financial Times. Even the usually critical economists of the OECD have more or less praised the model. The international research world is also interested in the model: Together with two other universities (including Aalborg University) and a business school, Tilburg University in the Netherlands has started a 3-year research program on the flexicurity model.

In many ways, the Scandinavian Way is a dream that has already come true. So what should be the future dream? Or, in other words, how do we remain innovative when it comes to the development of welfare, labor policy, and management style?

Can Scandinavian management be exported?

Denmark leads the Scandinavian countries when it comes to good management, and according to the IMD, Denmark has the world's best management practice. In IMD's study of management practice, Scandinavia is at the top, mainly because of exceptional strength in ethics, social responsibility, environment, health, and accounting. Each of the countries is represented at the top. Moreover, Scandinavia leads in areas such as shareholder value, customer satisfaction and management trustworthiness

The interest in the Scandinavian management style is not new, but the need for a new management style that works in the knowledge economy is growing in many countries. Many believe the Scandinavian management style is better suited for addressing the challenges companies and organizations face in the knowledge society. The style is network-oriented and motivating, and managers manage to empower employees to a greater degree than with other management styles. In Scandinavia, companies manage with goals and values rather than control and strict chains of command.

IKEA's management style around the world is thought to be informed by the Swedish management style. According to Waldemar Schmidt, former CEO in the global service company ISS with more than 350,000 employees, the Scandinavian style can be exported. Schmidt made a study, with IMD and McKinsey, a management consultancy, of Group 4, Securitas, Compass and Sodhexo. Through acquisitions, Compass and Sodhexo had become familiar with Scandinavian management style, and were considered to have a

Scandinavian islet in their management. Something the studies could confirm. All of the companies beat their American rivals. Nevertheless, is that enough to conclude that Scandinavian management style is better than other management styles?

Scandinavian management is democratic management. Democratic managers are results-oriented, and enter into discussions with subordinates to achieve consensus. Democratic managers who are both relation-oriented and goal-oriented, are better at creating productivity, employee happiness, and collegiality among the staff. They create greater staff efficiency, more risk-taking, and a feeling of accomplishment.

A study of the organizational structure of 1000 Danish companies, undertaken by Rambøll, showed that traditional companies with a hierarchal organization earned an ROI of 2.45%. Modern companies, characterized by more democratic management, achieved ROI of 6.4%. 29% of the traditional companies operated with losses, against only 16% of the modern ones.

Confidence, care and motivation

An often mentioned example, when the discussion turns to Scandinavia, is the especially short power distance that makes it easy to create a flat company structure.

The network philosophy and the idea of the flat organization were not born in Scandinavia. It became popular in the US largely thanks to Tom Wolfe's excellent article about the inventor of the microchip, Bob Noyce, who is also known as the Henry Ford of Silicon Valley. Scandinavia offered fertile soil for this new way of thinking, because it put words to an existing specifically Scandinavian organizational trait. In 1985, Scandinavian Airlines CEO Jan Carlzon published his book *Riv Pyramiderne* (published in English in 1989 as *Moments of Truth*.) The Swedish title "*Tear down the pyramids*" probably better illustrates Carlzon's thinking about flat organizations. The book and discussion about Carlzon have, perhaps more than anything else, helped cement the understanding of something uniquely Scandinavian.

The flat structure has the strength of breaking down the borders between management and staff. What is maybe especially Scandinavian is that the low power structure is often followed up with great interest and consideration for the staff. The manager manages to communicate to his employees that they are important to the company, and that their values have meaning. Therefore, it is not surprising that the Nordic countries top the IMD list for corporate values.

The core values in Scandinavian management are care and trust, and trust is at the same time an expression that great responsibility is delegated to the individual employee. The prerequisite for delegating responsibility is the generally high education level and that Scandinavians from childhood are taught to think independently and critically. Nordic employees have developed their professional skills out of personal interest and not from the likelihood of getting a job or good salary. That gives a high level of competence and some of the world's most motivated workers. That combination is particularly important, because research into creativity shows that the combination of strong qualifications and motivation is required for creativity and, in the end, innovation.

In a number of areas, the Scandinavian culture is thought to promote a more creative workplace. The short distance from top to bottom strengthens the flow of ideas through the organization. In Scandinavia, it is not so much the position in the organization as it is the arguments that decide what is right or wrong. That means there is greater possibility for more and freer debates. The strongly relation-oriented management style strengthens openness and trust in the company, which again helps promote well-being and motivation, both critical for creativity.

At a time when the need for innovation and change-readiness perhaps has never been greater, because of the growing competition from abroad, there are selected companies around the world who in remarkable ways differentiate themselves from others. Nevertheless, there is probably no region in the world that, to the degree found in Scandinavia, has this company culture from childhood.

Mads Øvlisen, former CEO of Novo Nordisk, a pharmaceuticals maker, represents the Scandinavian management style. This is how he describes his experience with the American model: "Already in my time in the USA, the terrifying thing for me was that the people, who are a company, did only what was expected of

them and not what they were capable of. I did not want to work in an American company. It was a type of military organization that was completely hopeless. One that decided how much time you used, when you were promoted, what you said to whom and whom you addressed. A hierarchy I simply could not use."

Anil Kapur, chef for Health Care Novo Nordisk India, comes from another management tradition. He says: "Mads' greatest contribution to the company is that he has shown trust and confidence in people. Shown trust in their ability to take care of things, and shown them interest. If one person does someone a good deed, then that person will do something similar for others down the chain, and that form of snowball effect will end with something we can call a corporate culture... Maybe some will ask: how can a person contribute so much to the culture in a whole company? Well, if that person happens to be the company's top manager, and he acts like that every day with people, it will trickle down through the company."

Kapur points out, moreover, that when one shows people trust, they will honor it. In that sense, we can say that elements of the Scandinavian management model can be beneficially exported.

The good manager

Over the last 60 years, at least, business has tried to figure out what characteristics are shared by good managers. In these studies, researchers have decided that management qualities depend on personal qualities. Put simply, a manager is not what you become, it is what you are.

Good management is, however, also contextual. It is changeable and related to the surrounding world.

Today, a good manager is measured against a sensible combination of goal-oriented and relation-oriented behavior. Professor Göran Ekvall has added a third category, change and development-oriented behavior. Ekvall shows two managerial types are especially well suited to run a modern company. The one organizes, planning from the small steps principle. Seems to handle everything, takes no unnecessary risks, but is not against change. Development happens over time with continuous development. The other is, to a greater degree, aimed at change and is strongly relation-oriented. There is a focus on understanding and the opportunity for the individual worker to be creative, and the management understands how to take care of the gifted workers and get them to grow. There is more focus on leadership than management.

These two management styles describe many of the facets that are used to describe Scandinavian management style. A leadership style that thinks strategically long term, has an eye for the employees' personal development, and is strongly relation-oriented. When managers are tested for basic personality traits, studies show that the extroversion and conscientious behavior indicate who is the good manager.

Interestingly enough, these are the traits that are emphasized when Scandinavian management is discussed, which is especially characterized by strongly relation-oriented and conscientious behavior. In that connection, one could assert that Scandinavian culture helps promote qualities that are positive in connection to management. That is not to say that Scandinavians are born managers, but the Scandinavians who are born to be managers are possibly helped by a culture that promotes these traits.

Future threats and challenges

The most serious threat for someone practicing Scandinavian management can be the inclination to fall into laissez faire management. While a laissez faire mood among the staff is the most optimal for creativity, it is paradoxically a very de-motivating form of management. Employees want independence and a creative organization with freedom and responsibility, but in practice, too much freedom can be destructive for an organization. Laissez faire management is, fully in line with modern management philosophy, characterized by offering greater freedom, but the laissez faire manager often forgets to manage in an attempt to be friends with everyone. A characteristic of laissez-faire managers is that they delegate responsibility and authority not to improve the business, but to get out of managing. They bury themselves in paperwork, are conflict-shy, have no clear goals for the company, which means there is no clear direction. For employees, it means there is less group cohesion, less concentration on work and lower quality

If other countries would learn from Scandinavia, they must build understanding that Scandinavian management is more about relation-oriented management than the flat organization. One cannot create a flat

organization without compensating for the strongly hierarchical structure with an equivalent relation-oriented effort. Democratic management differentiates itself from laissez faire management by, among other things, following up on delegating tasks, and ensuring employees meet the standards. Studies have shown that managers who advance most quickly were more relation-oriented and goal-oriented in their management style. The balance for Scandinavian managers is, therefore, is managing to create a mood of autonomy, where the employee has freedom within marked areas, without that independence degrading to the employee feeling left to his own devices. Scandinavian management style appears to be ideal to lead the workers of the future, but it is a demanding management style, where the manager appears more as a personal coach than a traditional management figure.

Management practice varies with the economy. When business is good, the soft values are ascendant, and in recessions, management tightens up. The increasing international competition could mean that there will be pressure to maximize labor productivity. Scandinavian managers judge themselves to be less goal-oriented than, for example, American managers, according to a survey by MandagMorgen and Øresundbroen. The American management style can, therefore, be expected to make inroads in recession, or when the global competition is marked more strongly.

Scandinavian managers also predict that we will see more of this bottom-line focused management style. The advantage is that Scandinavians may become more goal oriented. The disadvantage is that in the long term it may undermine the management style that both Scandinavians and management philosophers around the world increasingly believe is a clear competitive advantage. If a more American-inspired management model makes inroads, we will probably see greater use of more measurable management stools with clear payoffs for the employees who perform. But in that connection, managers must be aware that even if that increases productivity, it is not a management method that can be used to lead knowledge workers in a company that must survive by being creative, because studies show that management style creates more ideas, but of poorer quality.

Managers and companies who believe that innovation is the way forward should think carefully. Managing is obviously easier when one can document quarterly improvements. The middle manager is obviously better equipped at salary negotiations when he can show he has optimized, with measurable efficiency results at hand. However, just because it is easier and less complicated to manage does not mean that it is better in the long term. It is not necessarily the way to create an environment for a labor force that must be change-ready and creative.

The challenge for the managers of the future, in Scandinavia and elsewhere, is to strike a balance between a strongly relation-oriented management, where the focus is on the employee being taken care of, happy and motivated to be able to perform, and a strong profit focus. Close personal contact between manager and employee will probably become even more important than it is today. The understanding of when to pressure workers and when to back off, may make the difference between a worker who can perform far above target or collapse with stress.

If the Nordic/Scandinavian countries can successfully continue to be innovative in their labor market policy, and if Scandinavian managers can resist pressures to take a shortsighted view, we are well on our way into the future. However, it requires more than that: we must also be able to integrate other ways of thinking and managing in the Scandinavian management style. Read more in the article "Challenge from the East" to gain insight into this perspective.

Nordic region and Scandinavia

The Nordic countries are Denmark, Finland, Iceland, Norway and Sweden.

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New Report: The Scandinavian way

The Copenhagen Institute for Futures Studies' newest Member Report, The Scandinavian Way (#3 2006), covers the factors behind the so-called Scandinavian model. The report focuses on the Scandinavian models future opportunities and threats, and offers insights into the central challenges facing the Nordic countries. In this Member Report, CIFS has chosen topics that are particularly characteristic of Scandinavia, and that may be of interest not just to Scandinavians, but also to our international customers who desire insight into Scandinavian conditions. The report is aimed at decision makers in international companies and organizations who want to understand the Scandinavian labor and education policies, management style, and innovation efforts.

In the report, you can read about the history and special characteristics of the welfare state, and read special best practice reports from Denmark, Norway, Sweden, and Finland.

Best Practice: Denmark - Flexicurity

The design of the Danish labor market has gotten a serious revival. The rest of the world is impressed with and interested in how we have managed to combine a great degree of labor market flexibility, which benefits business life and the economy, while ensuring a great deal of security for employees. In the report, we describe the flexicurity model and the reason why foreign delegations have lined up in recent years to hear more about the model that is over 100 years old.

Best Practice: Sweden - world-class research & development

Sweden is interesting by European standards because it has been decades ahead of other countries when it comes to research and development. In 2000, the EU set an ambitious goal for itself, the so-called Lisbon strategy. The goal is to be the most dynamic, competitive, knowledge-based economic region by 2010. By 2010, the EU should use 3% of GNP on research and development, a share that most EU countries have not yet attained. Sweden, however, reached this goal in 1993

Best Practice: Norway - successful oil adventure

In 1970, Norway began an oil adventure that has given it the highest GNP per capita in the world. Therefore, it should come as no surprise that Norway can afford a welfare state. However, the standard of living has not tempted Norwegians to rest easy. How can Norway have the world's most productive economy, when history shows that an economy based on natural resources often achieves little growth and can be fatal for a country? Norway is an example of Best Practice when it comes to the ability to manage a natural resource-based economy in a responsible manner to the benefit of the Norwegian society.

Best Practice: Finland - The necessary skills

Finland has been forced to make radical changes to survive. A new modern Finland has risen from the wreck of the Finland that was left on its own when its biggest cooperative partner, the Soviet Union, collapsed. Crises often compel leaders to show leadership and make unpopular, but necessary, decisions. Instead of rescuing industry, Finland invested in higher education, with a view to the society of tomorrow. In the last five years, Finland has held first place on the World Economic Forum's list of the most competitive countries. Finland uses the second most on research and development, and ranks first on the OECD's ranking of educational performance. The report reveals the secret behind the Finnish results in education, and gives a unique insight in to what can be achieved when the will to change is there.

News: Receive the report in English. The Copenhagen Institute for Futures Studies member report is published four times a year - now both in Danish and English. All employees in CIFS member companies can request free reports. If you are uncertain if your company or organization is a member, consult the list of member companies on the back cover of this issue of FO/futureorientation. The next member report, Family and Everyday Life 2017, will be published in early December 2006.

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