

Study Guide

The Nordic Way – Global Crossroads and Capability to Change

by Cecilia Elmqvist



Preface

This is a study guide for the compendium *The Nordic Way – Global Crossroads and Capability to Change*. We present a number of questions to discuss for each article. These questions can also be used for seminars or panel discussions about the different articles or the entire compendium.

Bo Andersson, secretary-general of the Nordic Association, describes *The Nordic Way* in part as follows:

"It has proven difficult to reach agreement on allocation principles that are to apply in economic life and society and are considered fair by all. Based on common knowledge of these difficulties, the Nordic countries and countless interest groups have invested a great deal of time and energy in finding and developing both structures and methods for cooperating and for managing conflicts of interest and legal disputes. Structures and methods considered both effective and legitimate by concerned stakeholders.

Decisions that evolve from such a basis also gain relatively high legitimacy compared to those established using other structures and methods. Legitimacy in method A provides legitimacy in decision B.

*Over the years, various Nordic solutions have evolved, in different sectors, fields and levels of society. They differ partly in how one progresses from idea to decision, as well as in implementation and evaluation. But they also share many similarities, and it is these that we have chosen to call *The Nordic Way*."*

The method that Andersson describes is seen in, among other things, the different Nordic welfare models for areas such as the labour market, social welfare, equality and culture. There are both similarities and differences. One of the similarities is their legitimacy, as they all originate from the method known as *The Nordic Way*.

The articles in this compendium take a critical approach, which is one of the aspects of the concerned methodology. We evaluate and generate new ideas, and trust that this will continue to develop the models.

The ambition is for the questions in this study guide to create deeper understanding of the issues raised by the articles and to generate ideas and proposals for improvements to the different welfare models as well as the methodology itself.

The study guide is supplemented with two other articles that are not included in the compendium. These can prove beneficial as additional reading for the study circle leader. The latter articles are *The Nordic Way: cooperative, culturally radical and pushing personal development – now what?* by Lene Rachel Andersen and *The Essence of Nordic Corporate Governance* by Per Lekvall.

The articles included in the compendium are: *The Nordics topping all charts – but aren't we missing something?* by Tove Lifvendahl, *How equality helped economic growth – and then lost priority* by Katrine Marçal, *Trust and welfare – a happy couple?* by Mats Svegfors, *Green growth – will the Nordic countries take the lead?* by Stefan Edman and *Creating the Nordic way to the future* by Dagfinn Høybråten.

Welcome to the study circle

The Nordic Way – Global Crossroads and Capability to Change.

Using the study material

The study guide offers a suggestion as to how the group can approach the material. The participants should make notes about what ought to be discussed when reading the articles in preparation for the different sessions. The questions for discussion in the study guide are simply examples to provide a starting point. If the group wanders from the question, touching on another issue that is of interest and relevant to the subject, simply encourage them!

Methods, pedagogics and support

One suggestion is to divide the study circle into five sessions, with each session focused on a single article. It is best if the participants have read all the articles before the first session. Naturally, you can also choose to discuss several articles during each session, so as to gain a perspective that combines several of the themes that are raised.

Each session can begin with a general question about the article or articles the group has read. Was there anything in particular in the article to which they reacted? Anything particular they would like to discuss? This can be noted and returned to towards the end of the session, if it is not covered by the questions already listed for each article.

Depending on the context and the group, different discussion methods may help. Feel free to vary the group size for the discussions. Take a little time after posing each question to allow each participant to consider the question and write down any ideas they have, to ensure that everyone has sufficient time to reflect on the matter. For questions that tend to generate ideas, brainstorming may be a

good solution. Also remember to change the order in which people get to speak.

SV's Swedish-language website for study circle leaders, Cirkelledarnät, has information about SV, study circle pedagogics and how to start and conduct a study circle.

It also provides a portal to e-courses and a forum where study circle leaders can learn more about pedagogics and leadership in their chosen subjects.

So please visit www.sv.se/cirkelledarnatet.

Before the circle begins

Skim through the compendium's table of contents. Which areas are the group particularly interested in? What would you like to focus on? If you like, skip anything that is of less interest to your group.

Agree on the rules of the game within the group and establish what is expected of the group members. Also decide how the participants, to the extent necessary, are to stay in touch between sessions.

Note that the articles to be read prior to each session are listed next to the questions for discussion at each session.

Guide to the articles

The Nordics topping all charts – but aren't we missing something?

by Tove Lifvendahl

Tove Lifvendahl questions the lack of Nordic curiosity about the rest of the world, considering that the competitive edge of the future will be found in the capacity to develop human capital.

1. Lifvendahl mentions openness as an important part of the Nordic model, but concludes that at the same time Sweden and the other Nordic countries are relatively closed in relation to other countries. Where is this openness actually found?
2. The closed attitude that Lifvendahl describes, such as among company founders in Sweden but also in academia, what consequences will it have in these areas in the longer term?
3. This closed attitude and disinterest in experiences from other countries also has consequences for immigrants in Sweden. How can this impact integration both now and in the longer term?
4. How can we make better use of the experiences gained by Swedish expatriates? What can they contribute?
5. What would you consider short-term and long-term solutions respectively to the challenges surrounding the openness and closed attitude that Lifvendahl describes?

How equality helped economic growth – and then lost priority

by Katrine Marçal

Katrine Marçal discusses why the world's most family-friendly labour market is not automatically also the most women-friendly. The Nordic countries have a high percentage of working women, but pay gaps and glass ceilings remain.

1. What do you consider to be important factors behind Sweden successfully combining a high percentage of working women with high fertility rates?

2. Marçal writes that it seems as though generous systems for combining careers and family life can reinforce or even lower glass ceilings for women. At least while men choose not to use the system to as great an extent as women. Do you agree with the author's description? Can you see any other reasons?
3. Marçal mentions the fact that most other countries with a high percentage of female politicians also have a high percentage of women in top positions in business, but that this is not the case in the Nordic countries. In fact it is quite the opposite, with the lowest percentages of women in executive positions in all of Europe. She describes two possible explanations for this. One is sharp gender segregation in the labour market. The other is family-friendly government policies. Do you share the author's view? Are there other reasons why such a low percentage of women are found in top business positions in the Nordic countries? If so, what are they?
4. Productivity is high in the Nordic labour market. The norm is to work hard and then go home to your family, according to Marçal. What positive effects do you think this has in the Nordic countries?
5. "Despite investing heavily in women's opportunities in the labour market, the wage differential between Nordic women and men has remained just as big here as elsewhere," writes Marçal. What do you think needs to be changed in the Nordic "family-friendly systems" to improve equality?

Trust and welfare – a happy couple?

by Mats Svegfors

Mats Svegfors discusses whether the social trust that previously comprised the key to the Nordic countries' progress may instead become a future obstacle when the labour market and individuals are increasingly internationalised. A high level

of trust in long-standing institutions may risk becoming a stagnating rather than a driving force.

1. Discuss the ideas of "trust in society" and "trust in politics" raised by Svegfors. Is one dependent on the other?
2. Svegfors says that recently a kind of cultural explanatory model (trust is decisive) has been offered as an alternative to a more traditional political explanatory model (policies are decisive). What role do you think trust plays in the Nordic welfare model?
3. Great trust between both citizens and citizens and social institutions has resulted in a very well functioning society, according to Svegfors. How does such a society handle its own need for change? He also asks whether trust enables change. Discuss these points.
4. The internationalisation that comes with migration means, not least in Sweden, that the population becomes increasingly less homogeneous. This entails challenges for the immense systems in both the welfare sector and the labour market. For a transitional period at least, this means increased demands on public resources. But it also means that differentiation in these immense systems must be increased, says Svegfors, and proposes a number of ways to meet these challenges. Can you suggest other ways of meeting these challenges?

Green growth – will the Nordic countries take the lead?

by Stefan Edman

Stefan Edman describes how opportunity and capacity take the lead in a green circular transition for the environment.

1. Edman says that a general systematic problem preventing a solution to the climate issue concerns our welfare states largely relying on linear flows of energy and raw materials. What we need is a gradual but rapid transition from a linear economy to a more circular market economy in which profitability and success are based on income from utilisation rather than consumption. What steps do the Nordic

countries need to take to transition to a circular economy? When do you think it will be possible to achieve a complete transition to a circular economy in the Nordic countries? What is preventing such a development?

2. Edman says that there are at least four good reasons for the Nordic countries to create synergies to jointly increase their share of green growth: a larger market, influence the EU/EES agenda, common infrastructure and critical mass. What other reasons can you see?
3. All Nordic countries can show, for example, how research has resulted in the commercialisation of products and services for both domestic and overseas markets. Denmark is a world leader at this. Norway is a world leader in green cars. How can Nordic cooperation enable environmental and climate change endeavours to achieve the same level of success in all the Nordic countries?
4. The Nordic countries have had a combined power grid since the late 1990s, with a robust and unified electricity market. This differs greatly from the rest of the electricity market in Europe, which is divided into national systems. Can you see other environmental areas where Nordic cooperation can strengthen the Nordic countries?

Creating the Nordic way to the future by Dagfinn Høybråten

Dagfinn Høybråten's contribution emphasises that the Nordic region today enjoys better conditions than most others for successfully implementing the reforms resulting from globalisation – as long as the Nordic countries continue to move forwards together.

1. Høybråten says that countries that choose to follow in the footsteps of the Nordic region lack both the binding cooperation and the trust found in the Nordic countries. He says that these two components comprise a considerable part of the success of the Nordic model. Name other factors that give the Nordic model its strength.

2. Høybråten says that the greatest threat to the Nordic model is to take it for granted. He says that it is important not to interpret interest from the rest of the world as a sign that the Nordic model is complete and that the welfare states as we know them will remain so forevermore. It is important to realise that the Nordic model entails a series of choices and actions that are conducted together, otherwise there is a risk of important synergy effects disappearing leaving only fragments rather than the essential whole. Which components do you consider important for the continued development of the Nordic model?
3. The Nordic heads of state have ambitions to more actively take advantage of Nordic cooperation in the coming years, with the aim of creating a powerful region, one that deliver results in all five nations, in the EU and internationally. There are four overarching visions: a borderless Nordic region, an innovative Nordic region, a visible Nordic region and an outward-looking Nordic region. What do these four visions mean to you? If you were to add a fifth vision for the Nordic cooperation, what would it be?

The Nordic Way: cooperative, culturally radical and pushing personal development – now what?

By **Lene Rachel Andersen**

This is an article about human potential and how, in the Nordic countries, we have pushed the limits for personal development the past 150 years. By doing so, we have created high quality of life, personal freedoms, stable and open societies, strong democracies, low corruption, high equality, successful industries, some of the strongest economies in the world, and high individual autonomy, personal freedom and, yes, loneliness; The Nordic Way.

Three essential elements behind The Nordic Way that pushed our individual development and allowed us to become affluent societies, were education, but not just any kind of education, a unique set of cultural, modern values called Cultural Radicalism, and an idea imported from the United Kingdom: cooperatives. Together, they have allowed each individual to flourish and grow while still being an integrated part of, a contributor to and a loyal member of the local community and greater society.

At the end of the article, I will reflect on the current status of The Nordic Way and how we might move on from here.

Personal development

Before we get into the specifics about The Nordic Way, let me introduce what I mean by personal development and human potential. Here I refer to the work of Robert Kegan, professor in developmental psychology at Harvard, and his orders of consciousness or cognitive complexity. These are orders of human potential that we all carry at different ages, here presented in extremely condensed form:

The first order covers early childhood from 2 to 6 years, when one recognizes that other persons are separate from oneself. One has not yet recognized that other persons have their own purposes independent of one's own, and one cannot take another person's point of view as distinct from one's own.

At the second order, roughly age 6 to teens, one can construct one's own point of view and understand that others have distinct points of views too. One can take the role of another person, manipulate others on behalf of one's own goals, and make deals, plans and strategies. One cannot, however, take one's own point of view and another's simultaneously or see one's own point of view as an object. The world is understood in concrete terms and one cannot grasp abstractions. One's impulses and emotions can be understood as "objects" under one's control, so this is the age when we expect children to gradually learn to control themselves according to the norms we keep telling them about.

At the third order, the teenage years and beyond, one can reason abstractly and be aware of shared feelings, agreements, ideals, and expectations that take primacy over individual interests. But one cannot oneself construct a generalized system explaining interpersonal relationships and relationships between relationships. One can also see one's own point of view as an object and coordinate more than one point of view internally, and one has internalized the norms of society, so we don't have to correct one another all the time.

At the fourth order, which some 40 percent of Western adults develop today, one is capable of viewing the norms of society as an object among other objects, setting oneself emotionally or intellectually outside society's general perspectives and taking a personal stand. Even at the cost of being ostracized by friends

and family. Abstractions such as ideologies, religions and cultural values are considered to be up for scrutiny, discussion and personal preferences – and one values differences of opinion and makes room for other perspectives.

These orders not only apply to individuals, however, but also to the cultural complexity of society and its expectations of the individual. Robert Kegan characterizes the traditional, pre-modern society as a society of the third order in which the pinnacle of psychological development is internalizing the collective norms. In the modern society, however, we are expected to develop our own ethical backbone, and rather than there being one collective Truth, there are many individual truths. The level of complexity in modern society demands the fourth order of consciousness if we are to succeed as adults in demanding careers, in intimate relationships such as marriage and as engaged citizens in the public sphere.

Nordic education – Bildung and lifelong learning

As I see it, what we have done in the Nordic countries during the past 150 years is that we have pushed the personal development of a critical part of our populations from the third order to the fourth through education. We have insisted on personal development, abstract and critical thinking, individual truths, and the courage to go against the majority, rather than just internalizing existing norms, and we have built the systems to provide it; the keywords are Bildung and lifelong learning.

Oddly enough, the English language does not have a word for Bildung but it is often referred to as self-cultivation. The ancient Greeks called it Paideia and in French it is *éducation*, which is different from instruction. Instruction is the education one gets in school, the knowledge and skills that may be picked up by anybody, *éducation* is the learning that comes from personally engaging with the instruction, with one's culture and with oneself and others in the process. Bildung, in other words, is the process of personal and cultural maturation, a maturation touching the individual's heart and challenging viewpoints and opinions. It is a slow process over many years that may be scaffolded but cannot be taught, it is an opportunity to grow as an individual and a unification of selfhood and identity within the broader society.

The Nordic countries got the Bildung ideas from Germany in the 19th century, mainly through the thoughts of Wilhelm von Humboldt, and we developed local words for it and built our educational systems around it. Just as the German language has Bildung and Ausbildung to distinguish between self-cultivation and education, so do the Nordic languages: Norwegian and Danish, *dannelse* and *uddannelse*; Swedish, *bildning* and *utbildning*. In Icelandic the words are *siðmenntun* and *menntun*.

The Nordic Bildung tradition started in Denmark in 1844 when the first “folk high school” was invented, a boarding school for young adults, typically young peasants. The inventor was a pastor named Niels Frederik Severin Grundtvig, the education was not formal but popular, and the goal was enlightenment and personal development. Language and history of the fatherland, new farming techniques, folk songs, and discussions, all in a Christian framework, the meeting of the minds, and the living word were the main ingredients. This was revolutionary and gradually became very popular, not just among young farmhands but also in the cities among workers and in other parts of society. Along with spreading throughout Danish society, the concept also travelled to the other Nordic countries.

At the end of the century, this idea of “popular enlightenment” and “lifelong learning” evolved into other formats; unions and political parties developed adult education with evening classes and study circles. Today, the variety of classes offered in folk high schools and evening classes spans from foreign languages and astronomy to wine tasting and quilting, and the schools offer beginners' courses as well as university-level lectures.

Bildung and open-ended, lifelong learning are at the core of the Nordic societies. Today most programs are subsidized by the state and so, for generations now, almost everybody has been able to afford this kind

of personal development. But not only does this mean that everybody can learn what his or her heart desires and challenge personal potential, it means that people from different strata in our societies meet around shared interests. Thus, part of learning, say, navigation, is that you end up in a discussion about something completely different with a fellow citizen who has very different political views from your own and whom you would have otherwise never met. A very important side effect to all of this is that it builds relationships and trust throughout our societies – and opens the door to the fourth order of cognitive complexity.

Bildung and lifelong learning on the one hand increase cultural and intellectual diversity in our societies and break down the one Truth in favor of several truths, but at the same time, they connect people in disagreement and become a democratic glue.

Cultural Radicalism – pushing the norms

All this learning and discussion pushed people at the individual level, and around the 1870s, Nordic intellectuals developed what is now known as “The Modern Breakthrough” and pushed the norms at the societal level. In the 1930s, their thoughts evolved into what may be best characterized as an ideology, which was later named Cultural Radicalism.

Most famous among the intellectuals of The Modern Breakthrough are playwright Henrik Ibsen, Norway, scholar and critic Georg Brandes, Denmark, and author August Strindberg, Sweden. They revolted against traditional cultural themes, especially the literary period of romanticism, and they exposed liberal views on topics such as sexuality, marriage and religion while expressing their interest in scientific breakthroughs such as Charles Darwin’s theory of evolution. Female writers also had their breakthrough during this time.

These thoughts spread throughout the Nordic societies, and by the 1930s they had evolved into an ideology and political parties strongly opposing the emerging totalitarianism. But it was more, it was also a value system of humanism, modernity, internationalism, pacifism, and democracy that became manifested through design, architecture, and basically all art-forms. Nordic design isn’t just slick aesthetics, it is the product of Cultural Radicalism and such values as harmony, proportions of a human scale, simplicity, minimalism, functionality, natural materials, affordability, equality, and a good life for ordinary people.

Much to the chagrin of the strongest cultural radicals, however, those “ordinary people” very often hated their modern design and the values that mocked traditional norms. Nevertheless, Cultural Radicalism seeped into all strata of the Nordic societies, challenged them and created a narrative in which Kegan’s fourth order of consciousness is today a firstborn: In order to become a fully respected adult, one must question traditions and find one’s own, personal path.

Cooperatives – somewhere to act

Parallel to developing the early folk high schools, we imported the concept of cooperatives from the UK. At first this meant that peasants organized due to the economic benefits, but it also contributed to evolving organizational and democratic skills in the population. As Bildung proliferated and diversity increased, this turned into a plethora of unions, associations and civic engagement in everything from politics to sports and learning how to fix a bike.

The Nordic countries have some of the highest numbers of NGOs per capita in the world, and through these organizations we practice democratic skills, learn how to cooperate, grow by collaboration, and get used to the frustrations of having to listen to everybody. These skills have made Nordic companies both innovative, agile and very competitive, and it has allowed us to develop transparent institutions where people expect not just to be heard but also to have a say.

The downsides – are we really that happy?

Whenever countries are ranked for happiness, all five Nordic countries are generally among the top ten. But we are also above average in suicides, depressions and consumption of anti-depressants; not at the very top, but definitely not at the bottom either where one would expect to find us if we were really that happy.

There are academic discussions about what is actually measured in those surveys of happiness, and how that corresponds with the unhappiness, but I will not get into here.

Rather, I will point out an inherent trait of The Nordic Way as it is described above, which may cause unhappiness and depression: loneliness.

In 2006, a book came out in Sweden with the somewhat astonishing title “Is the Swede human?” – *Är svensken människa?* The main point of the book being that the Swedish welfare state is not, as one might assume, the product of warm and fuzzy feelings of empathy, but of an inherent Swedish urge towards independency. The Swedes will rather pay high taxes and have the state take care of the misfortunate than having to be themselves responsible for the economic and social welfare of family and friends – or worse, risk being oneself dependent on family and friends for financial support. One might even be tempted to call it a Pippi Longstocking syndrome: a semi-orphaned girl on her own in a huge house, with a chest full of money, opposing authorities, and physically invincible, but with no intimate relationships. The Christmas she spends alone is heartwrenching.

There is no doubt that the independency at the fourth order of consciousness breaks down some family ties that are there for emotional support in the traditional, pre-modern society of the third order. And Cultural Radicalism certainly does not help in this situation. With its rationalism, minimalism and rebellion against norms passed down through the generations, it carries with it a coldness, which does not leave much room for passion, patriotism, romanticism, sensuality, traditional gender roles, or values such as honor, shame and reverence. It speaks a language that leaves people estranged from one another.

The Nordic Way – where to go?

The Nordic countries did well in the modern world, but the world is evolving and as societies as well as individuals, we face the need for new ways to handle ourselves in the post-modern world. Globalization, migration and constantly changing circumstances put new demands on us.

Kegan also writes about a fifth order, the post-modern society and the way it challenges us. In his terms, there are two kinds of post-modernism, the deconstructive, which only offers fragmentation and a rejection of the modern and the pre-modern, and the reconstructive, which separates itself from the modern and the pre-modern while at the same time integrating them into a bigger complexity of understanding and meaning. The reconstructive post-modernity sees truths as well as Truths as processes that are an essential part of what it means to be human, and though we might be, at any time, capable of deconstructing them, we need to interact with and through these truths/Truths constantly because that is what it means to be human and they shape our reality.

At the personal level, the fifth order means transcending the individual perspective without going back to conformity. It is about seeing oneself and one’s own points of view as part of a bigger picture where our opponents and their points of view are an inherent part of who we are ourselves, we not only get to know ourselves from the interaction, we also grow from it. There is no me without you, no right without left, no up without down, and as Eastern philosophy states: no Yin without Yang.

It is a recognition of the need for there to be opposites while at the same time not being indifferent to, say, injustice, violence, pain, suffering, poverty etc. It is seeing the bigger picture and contributing to it without knowing the final answer, and it is challenging the norms while keeping and appreciating them.

In the Nordic countries, we created the educational system that allowed us to push the personal devel-

opment to meet the needs of the modern, fourth order society. Unfortunately, today, the Bildung aspect is being bulldozed out of our school systems in favor of PISA tests serving the third order world of New Public Management and spreadsheets.

What we ought to do, is to develop the education and scaffold the Bildung that will allow us to handle the reconstructive post-modern fifth order of complexity. The Nordic countries ought to figure out how we can assist a global transition from the pre-modern and the modern to a meaningful post-modern world that allows 10 billion people to enjoy their potential to the fullest.

Sources

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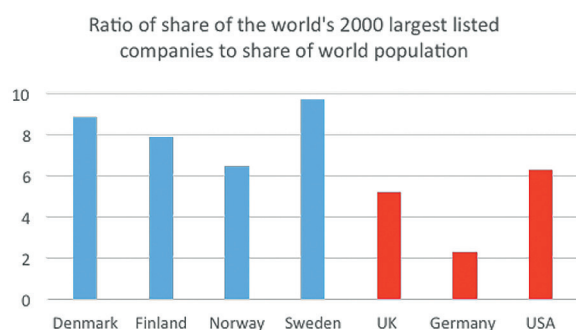
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The Essence of Nordic Corporate Governance¹

By Per Lekvall

The four Nordic countries of Denmark, Finland, Norway and Sweden have fostered a remarkable number of world-leading companies, as illustrated in the figure below. The diagram displays the ratio of the share of companies on Forbes list of the world's 2000 biggest listed companies to the share of world population for these countries, benchmarked against three world-leading industrial countries. It appears that for the Nordic countries this ratio is three to five times that of Germany and that their average significantly exceeds the ratios for both the UK and the US.



Sources: Forbes Global 2000 Leading Companies List 2013: www.forbes.com/global2000
World Bank 2013 report: www.worldbank.org

There may of course be many factors underlying this performance, an analysis of which goes beyond the scope of this article. Nonetheless it is reasonable to assume that the way Nordic companies are governed contributes positively to this achievement.

Is there a common Nordic governance model?

As shown in the study underlying this article the answer to this question is clearly affirmative. Two key features of the Nordic capital markets make up the institutional basis for this.

First, the norm systems determining how corporate governance is practiced in a particular jurisdiction closely resemble one another among the Nordic countries while differing in significant respects from other parts of the world. Generally speaking there are three main components of such norm systems:

- I *Statutory regulation*, primarily in the form of Companies' Acts, for which there is a long history of coordination between the Nordic countries, leading to a situation with closely resembling judicial foundations for corporate governance.
- II *Self-regulation*, which by tradition plays an important role in the Nordic societies. Since the early years 2000 self-regulation within this field mainly takes the form of corporate governance codes. Although

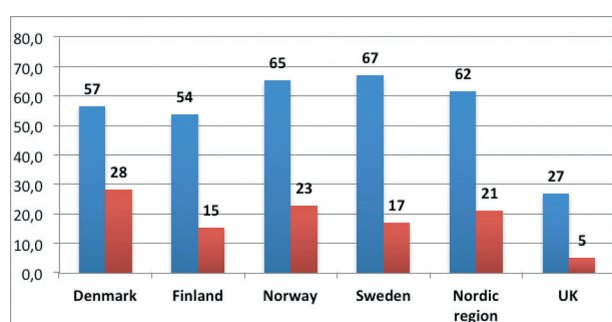
1. This article is based on the report *The Nordic Corporate Governance Model* of a recent study aimed at defining and describing a common Nordic corporate governance model. The report may be down-loaded free of charge from the SNS website: http://www.sns.se/sites/default/files/the_nordic_corporate_governance_model_1.pdf or from the SSRN website: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2534331. It may be obtained in hard-copy form from the online bookstore www.bokus.com and, as e-book, from www.kobobooks.com or www.overdrive.com

somewhat different in form, in terms of substance matter the codes of the Nordic countries are quite similar and generally in line with current international standards.

III *Non-codified norms, values and practices*, which also play a significant role to determine corporate governance standards in Nordic companies and which are largely shared across the Nordic business communities.

Second, the Nordic countries share a common overall structure of the capital markets and ownership patterns in listed companies. Not least the second aspect is important in this context since it largely determines the role shareholders can play in the governance of companies. Also in this respect the Nordic countries display a remarkable resemblance while differing distinctively from particularly the UK market, as illustrated in the diagram below.

Presence of control ownership on the Nordic and UK primary stock markets



The diagram shows the percentage share of listed companies with at least one shareholder in control of more than 20% (blue bars) and 50% (red bars), respectively, of the votes of the company. The data for the Nordic market comprise all domestically domiciled companies on the primary stock exchange of the respective countries, whereas the UK data are based on a sample of 116 out of the corresponding population of about 800 companies on the London Stock Exchange.

As shown in the diagram, more than six out of ten listed companies in the Nordic region have at least one shareholder in control of more than 20% of the votes of the company, with Norway and Sweden displaying the highest and Denmark and Finland slightly lower levels. Furthermore, one company out of five has at least one shareholder in absolute control of the company with more than 50% of the votes. For both control levels the corresponding numbers for the UK market are significantly lower.

Thus the Nordic markets are characterized by highly concentrated ownership structures to the extent that most listed companies have one or a few shareholders that effectively control the company. As shown in an EU study from 2007² they largely share this feature with most European continental countries. This stands in sharp contrast to the situation on the UK and US markets, where more dispersed ownership structures are the rule.

What characterizes Nordic corporate governance?

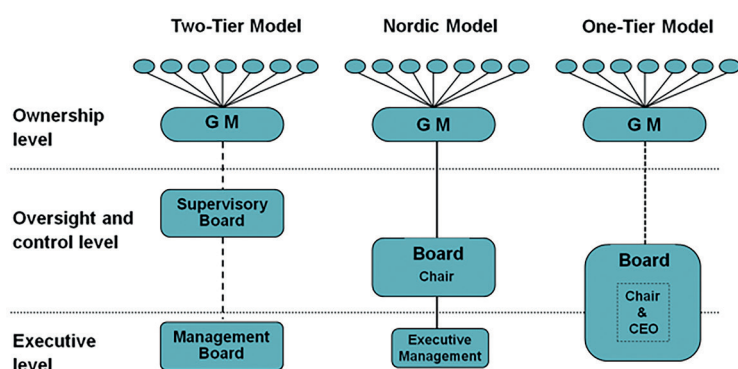
The most distinctive feature of the Nordic governance model is that it allows a shareholder majority to effectively control and take a long-term responsibility for the company. The alleged risk of such a system – the potential of a controlling shareholder to abuse this power for her own benefit at the expense of minority shareholders – is effectively curbed through a well-developed system of minority protection. The result is a governance model that encourages strong owners to invest time and money into long-term engagement in

2 European Commission Study on Proportionality between Ownership and Control, 2007.

the governance of the company in order to promote their own interest while at the same time creating value for the company and all its shareholders.

The underlying philosophy is that shareholders should be in command of their company. The board and management are seen as the shareholders' agents for managing the company during their mandate period under strict accountability to the shareholders for the outcome of their work. This is manifested through a clear-cut and strictly hierarchical governance structure based on four pillars:

- I *Supremacy of the general meeting* to decide on any matters that do not expressly fall within the exclusive competence of another company organ.
- II *A non-executive board of directors* appointed by, and fully subordinate to, the shareholders in general meeting.
- III *An executive management function* appointed by, and fully subordinate to, the board.
- IV *A statutory auditor* appointed by and reporting back to the shareholders in general meeting.



The strong ownership powers inherent in this structure may be further enhanced in all four countries through the use of dual-class shares with different voting rights. This option is currently mainly used in Denmark and Sweden, less in Finland and seldom in Norway.

This governance structure may be illustrated and compared with the one- and two-tier models, respectively, largely dominating European corporate governance, as shown in the figure below.

The left-hand side of the figure depicts the two-tier system, typically used in jurisdictions based on German civil law tradition but with some variations also in several other European continental countries. This system draws a strict line of demarcation between a Supervisory Board, with sole oversight and controlling functions, and a Management Board vested with virtually all executive powers. The decision-making competence of both the general meeting and the supervisory board are strictly defined by law, largely limiting their powers to matters of oversight and control rather than active steering of the company. The dashed lines in the figure symbolise this limited power of the superior governance bodies in this model.

This is in stark contrast to the one-tier structure shown on the right-hand side of the figure, predominantly used in jurisdictions with an Anglo-Saxon common law tradition, including the US and the UK. Here the supervisory/control and the executive functions are combined in a single governance body – the Board – comprised of both executive and non-executive directors. This set-up entails a number of integrity problems of the board vis-à-vis the executive management, problems that underlie several key principles of modern corporate governance.

Although in theory the general meeting of this model has strong superior powers over the board, in practice this is largely illusory due to the highly dispersed ownership structure of most listed companies, typical of the markets where this model is predominantly used. With no owner holding more than a fraction of the stock of the company, and particularly if most of those are institutional investors, there are often no shareholders willing or able to invest the time and money necessary to exert strong ownership powers. This,

in turn, typically leads to most governance power being delegated to the unitary board with only faint shareholder powers to control and discipline it to act strictly in the interests of the shareholders.³ This is in the figure symbolised by a dotted line connecting the general meeting and the board.

The Nordic solution is distinctly different from both these models. It is neither a mixture of, nor a compromise between, the two. It rather differs from both in at least three fundamental respects:

- It allocates far-reaching powers to the general meeting by placing this body on top of a hierarchical chain of command in which each company organ is strictly subordinate to the next higher level in the chain. Hence the solid lines in the figure.
- It vests the board with far-reaching powers to manage the company during its mandate period. Still any board director, as well as the entire board, may be dismissed by the shareholders at any time and without stated cause, thus ensuring clear subordination to the general meeting and strict accountability to the shareholders.
- It makes a clear distinction of duties and responsibilities between a non-executive board and a purely executive management function, the latter appointed by and, as considered appropriate, dismissed at any time the board, thus entailing a strict hierarchy that ensures strong accountability.

The other side of this highly owner-oriented model is a far-reaching minority protection system, aimed at preventing controlling owners from extracting private benefits from the company at the expense of minority shareholders. This is obtained through a combination of statutory, self-regulatory and general practice provisions, each of which may not seem very unique in an international perspective, but which together make up a comprehensive system, developed and refined through many years of accumulated experience. The capability of this system to effectively curb the possibilities of control owners to extract undue private benefits from their companies has been convincingly shown both scientifically and in practical use. Thus World Bank economist Tatiana Nenova, in her multi-country study of 2003⁴, showed that whereas the median excess value of control-block votes over all votes in the company, assumed to reflect the availability of excess private benefits to holders of control shares, was on average 23% among jurisdictions of French civil law origin, 16% among jurisdictions based on German civil law and 1.6% in Anglo-Saxon jurisdictions, it was a mere 0.5% across the four Nordic countries. More practice-based evidence is provided e.g. by the competitiveness of major Nordic companies on international markets as illustrated in the first diagram above, the attractiveness of Nordic listed companies on the international capital market as evidenced by the more than 40% foreign ownership of Nordic listed companies, and the remarkably few instances of major corporate scandals in the Nordic countries compared to some other parts of the world.

Is the Nordic model sustainable?

During the last two-odd decades this model has been subject to considerable pressure from mainly two sources. One is the international capital market, which has increased its presence on Nordic markets significantly and now accounts for more than 40% of the market capitalization of listed companies in the region as a whole. This market is since long heavily dominated by institutional investors with a US/UK corporate governance background. Occasionally this has caused frictions when confronted with Nordic governance practices, manifested for example through a lack of understanding of Nordic general meeting practices, major shareholders' role in the governance process and the duties and responsibilities as a board director.

3 Instead this function is traditionally assumed to be performed through an active and well-functioning market for corporate control, whereby underperforming companies are constantly subject to takeover threats.

4 Nenova, T.: The Value of Corporate Voting Rights and Control: A Cross-country Analysis. *Journal of Financial Economics* 68 (2003), pp. 325-251.

A second source of pressure is the corporate governance harmonization agenda pursued since the turn of the millennium by the European Commission. For reasons yet to be explained, the EU-level regulation used to implement this agenda has been largely based on the UK governance model. This has led to regulatory initiatives that have in many cases been poorly adapted to the governance systems of other parts of Europe, among those the Nordic region, thus causing considerable challenges for policy-makers, owners and companies of those regions.

These circumstances have led to speculations of a gradual conversion of other governance systems towards the Anglo-Saxon model. However, although many corporate governance principles of predominantly US/UK origin have been introduced and significantly influenced governance regulation and practice throughout Europe, on a more fundamental and structural level, the Nordic model still largely remains intact.

To what extent this will continue to be the case also in the future remains to be seen. On this account Professor Ronald J. Gilson makes some interesting observations in a comment on the Nordic model in the report of the study, Citing recent developments in the US and the Nordic markets he sees no evidence generally supporting a “convergence theory”. On the contrary, both dispersed and concentrated ownership patterns seem to be thriving in both types of market. Hence, Gilson speculates, the relevant issue may be whether we will see a convergence of ownership distribution within rather than between markets, possibly leading to a situation where both ownership models will be thriving side by side on the same markets.

The Nordic Association

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SV's vision is a world founded on sustainable development.

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