VINNOVA REPORT
VR 2008:14

LEADING COMPANIES IN A GLOBAL AGE

- Managing the Swedish Way

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Title: Leading Companies in a Global Age - Managing the Swedish Way
Author: Pär Isaksson - Affärsvärlden
Series: VINNOVA Report VR 2008:14
ISBN: 978-91-85959-25-9
ISSN: 1650-3104
Published: July 2008
Publisher: VINNOVA – Swedish Governmental Agency for Innovation Systems / Verket för Innovationssystem
VINNOVA Case No: 2008-00360

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Leading Companies in a Global Age

- Managing the Swedish Way

by

Pär Isaksson

Foreword

The Swedish management style, with its emphasis on trust, teams, action, empowerment, and alignment, produces non-bureaucratic and flexible organizations that fit well with the demands of the knowledge society of the future. This is a structural capital which constitutes a competitive factor that is difficult to mimic and has taken a long time to create. It is one of the results of the major development programs in operations management and work organization that were run in Swedish industry during the 1940's, 50's, 60's, 70's and 80's. During this long period of research, development and training, there was a lively, visionary discussion on managerial and organizational issues between employers, unions, scholars, and practitioners.

This discussion seized to exist. Since the mid 1990's the organizational level is absent in national discussions on innovation and global competition. For VINNOVA, with its mission to enhance sustainable growth, this is a major problem. Successful innovation requires that investments in technological R&D are complemented with knowledge on how to create organizational conditions facilitating creativity, effectiveness, and value creation. Technology often creates the prerequisites for competition, but business success or business failure is usually determined by *the way* technology is applied, organized, and utilized. Issues concerning the management of innovation and operations are of increasing importance in contemporary business.

This book outlines the qualities of the Swedish way of management and describes how it has evolved from the 1930's to the present days. This is an important story, which we hope will trigger thoughts and discussions about how Swedish organizations are managed; how they ought to be managed; and what kind of knowledge development measures that are needed in order to ensure that Swedish organizations will be effective also in the future.

VINNOVA has taken several initiatives to bring issues on management, leadership, and work organization back in. With research programs on e.g. workplace innovation, innovation management, operations management in health care, work organization in service companies, workplace competence development, and formal aspects of leadership, the aim is to direct attention to issues of crucial practical importance for companies, but which has been almost neglected among researchers and policy makers for a long period of time. The problems within this field seem to be eternal, the solutions might be old, *but* the context is continuously changing. Consequently, there is a strong need for more knowledge development on how to lead, organized, and manage under present and future business conditions.

The book is written by the knowledgeable business journalist Pär Isaksson of *Affärsvärlden*. We like to thank Pär for a good piece of work, which we hope will inspire readers of different industries and professions. However, the views expressed in the book are solely those of the author, and should not be ascribed to VINNOVA.

VINNOVA in July 2008

Mats Engwall
Head of Working Life Department

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Summary

Globalization has brought a number of changes to the world economy, and more is to come. In many industrialized nations – but also elsewhere – there is a lively debate on how to meet those challenges. But the approach is almost exclusively a macroeconomic one, even though innovative companies that can adapt to changing circumstances are a prized asset in all countries. This is why management is an important factor in national competitiveness terms.

My approach is to look at the Swedish management culture, which has for decades been a leading indicator of successful corporate management. The country has half a century of continuous development in this field. It originated in close cooperation between manufacturing companies and trade unions in the 1940s, where unions agreed to accept rapid rationalization even at the expense of job losses. In return, employers pledged to strive for a more inclusive work place. Today, this tradition is alive and well. Swedish businesses are very competitive in a number of global industries.

But will they remain competitive? And which management style is likely to prevail in the future? I have interviewed a number of management scholars, expatriate managers and strategy consultants in the United States, China and Europe to try to answer those questions. The interviewees agree that successful senior and middle managers will need three things: they must have good general leadership skills, be able to promote operational efficiency and allow a better work-life balance for their employees. Let us make the assumption that these factors will be the most sought-after in companies worldwide in the near future. How do they, then, fit in with the profile of a typical Swedish manager?

It turns out that there is a very good match. Academic research and the interviews, which were all conducted in early 2008, identify that the Swedish management style of today is:

- Meritocratic, autonomous and anti-hierarchical
- Biased for the team approach
- Reluctant to glorify star performers
- Non-confrontational and conflict-avoidant
- Action-oriented

Swedish senior managers tend to focus on the big picture goals, on setting direction and aligning support. They leave details and execution to teams. They sometimes have a problem with handling conflicts, but in many cases realize that they need to be more direct and clear when they operate in an international environment. This translates into a change-oriented culture which welcomes very flat organizations.

Such a management style is likely to do well in a global age. But if Sweden is to gain from such a development, it needs to restart the research programs on management and work organization that have benefited Swedish companies in past decades. Academic institutions, government think-tanks and consulting firms play an important role here. If the discussion on how management and work organization should look like in the future is not restarted, it is quite likely that the methods that have served Swedish companies well will, in due course, be copied by businesses worldwide. Sweden may then inspire the world in terms of management without gaining very much from it.

Preface

Most advanced countries worry about how to address the challenges of globalization. Coping with increased competition is at the heart of the issue, which has prompted a number of governments to form high-level working groups and competitiveness councils. France, Portugal, Sweden, Finland, Norway and Denmark have established globalization councils to look into the matter. In the United States, an annual National Summit on American Competitiveness was launched in 2007. Its 2008 meeting in Chicago attracted several hundred delegates.

Such forums often discuss government policy regarding science, education, innovation, deregulation and conditions for entrepreneurs. An aspect that often goes missing, however, is the interaction between the macroeconomic environment and how companies actually operate. A business sector composed of strong and innovative companies is a prized asset as it creates high-paying jobs and generates sustained growth. But such a structure can hardly be taken for granted. Politicians and government officials need to choose the right path when it comes to taxation, infrastructure, regulatory and other policies and then to make sure these policies become reality. In order for them to do this, it is a big plus to have a sound grasp of how companies are run.

Corporate management is a neglected area in the context of policy formulation. Most politicians and public sector analysts regard the workings of companies essentially as a “black box”. They may hold strong opinions on education, infrastructure, taxation and regulation. But they generally have little interest in microeconomic conditions. This lack of interest was manifested in the calls for protectionist measures during the 2008 U.S. presidential election campaign and also in the recent European debate on “jobless growth”. In both cases, the discussions would have been more productive if they had also included developments that are well-known to any corporate executive, such as outsourcing, supply chain optimization and temporary staffing.

Such examples highlight the role of corporate leadership in the national economy. And that role is rarely analyzed, despite the fact that management styles and traditions differ substantially from country to country and develop over time. This is why an analysis of these styles adds an important dimension to our understanding of which countries, which types of companies and which managers will be the most competitive in the future. And that is why this book came into being.

Its purpose is to review the Swedish management style. It has historically been one of the world's most successful and may well be regarded as a leading indicator of future global trends in senior and middle management. Jack Welch, legendary head of General Electric, once remarked that "pound for pound, Swedish managers are the best in the world". So are there any lessons to be drawn by managers from other countries? Is the Swedish team-based approach really competitive? What can be done to make it more so? And which management styles will prevail in a global age?

I believe these questions, and their answers, are of interest to a wide audience. It may include managers, human resource professionals, consultants, government officials and students in many countries, and perhaps especially the thousands of expatriate employees employed by Swedish companies abroad and by non-Swedish companies in Sweden.

To try to find these answers, I have interviewed management researchers, expatriate managers and senior management consultants in the United States, China and Europe. I have also drawn on the existing literature and on my 25 years' experience as an international business journalist, mainly at the magazine *Affärsvärlden*. My thanks to all the people who agreed to be interviewed. I am also grateful for the inspiration and assistance of the staff of the Swedish Governmental Agency for Innovation Systems, VINNOVA, and in particular Mats Engwall and Marianne Döös. I would also like to thank Jon Åsberg, editor-in-chief of Affärsvärlden, for his generosity in granting leave. The opinions expressed here are all mine.

Stockholm in July 2008

Pär Isaksson

1 A world in search of a global business model

When you seek to compare the Swedish and other management styles, it is worthwhile to look at them in the context of the current international business climate. That climate is characterized most of all by increased global competition. This is a fact of life for companies all over the world, across nearly all industries.

In all likelihood, this trend will continue. Managers are addressing the situation by cutting costs or lifting volume to obtain better economies of scale. Cost cuts are of limited use on their own, however.

Adopting a strategy of rapid growth may not always be the answer either. Already more than half of all international merchandise trade takes place within companies. Very large companies and very long supply chains provides a complex environment if you plan to build a global business. Outsourcing simplifies the task to some extent. It does this by stripping out one or several managerial layers in the company.

In low value added industries, many firms adopt "modular" manufacturing, shifting production with the highest labor content to low-cost countries. But in high value businesses, research, development, logistics, design and marketing often have to work closely together. This is known as an integrated production structure. It requires a competent and flexible work force where individuals need to possess a multitude of skills. In the high-value, integrated environment, offshoring or outsourcing may not be an attractive option. In such companies, it may be better to reduce hierarchy and flatten the organization. Doing so enables firms to streamline their operations and boost innovation. Some highly successful companies, such as Southwest Airlines and Google, have done well by devolving much of the responsibility to their employees.

Is this always a recipe for success? In the case of Google, it is, of course, early days since the company was only founded ten years ago. Nevertheless, the trend seems to go in this direction - that is away from traditional hierarchies and management by command and control. It should be pointed out, however, that IT systems enable firms to exercise substantial control over their operations by setting specified goals and performance criteria. These are continuously evaluated. This trend may be seen as a centralizing force. In some companies the focus may indeed be to strengthen control rather than loosening it – a paradoxical development.

But the overall trend is clearly that of decentralization. Most major U.S. companies, such as Cisco and General Electric (GE), declare themselves to be "collaborative" corporations. It remains to be seen whether this trend is a public relations exercise or whether it is for real. One aspect seems, however, definitely strengthens the case for a more decentralized way of doing business. That aspect is globalization. GE, to take just one example, gets half its revenue and most of its growth from outside of the United States. In order to run operations and communicate with clients, suppliers and business partners in a number of countries and locations, the management style must be adapted to the world. In the previous century, this often meant rolling out a U.S.-centric management style. American corporations dominated most industries so there was no need to modify the culture. Now the world economy is becoming increasingly multi-polar. In the late 1990s, the U.S. equity market accounted for half of the global market capitalization. In 2007, its share was only 35 percent. The developing Asian countries are becoming an increasingly important force in the world, representing 11 percent of global GDP compared with 6 percent in 1995. If one looks at how new money is being allocated, the shift is even more marked. In 1995, developing Asia plus Eastern Europe and the former Soviet Union attracted 12 percent of gross global investments. In 2007 this share, of a much larger global economy, had doubled to 24 percent.

In this environment, different sets of managerial skills are required. Companies have to be truly multinational in order to compete well. Human resources are a vital element in this work. Jeff Immelt, head of GE, put it like this in a recent speech: "When I first joined GE, globalization meant training the Americans to be global thinkers. Now you see non-Americans doing important jobs at every level and in every country". Daniel Meiland, chairman of executive search firm Egon Zehnder, wrote in 2006 that he expected that within ten years top managers in all large corporations "will be those who have lived in several cultures and who can converse in at least two languages".

An equally important factor is probably the structure of the organization. The structure cannot be too hierarchical if the company is to grow and thrive in a number of markets and business segments. This argument was put forward forcefully already in the late 1990s in a Harvard Business Review article ("The End of Corporate Imperialism", by C.K. Prahalad and Kenneth Liebertahl). The authors forecast "an impending power shift within multinationals" where successful firms would transfer responsibility and resources to the emerging world. According to Prahalad and Lieberthal, a more decentralized structure would evolve. That structure would bringing about an “end to the era of centralized corporate power – embodied in the attitude that headquarters knows best – and a shift to a much more dispersed base of power and influence”.

It is in this context that one should view the Swedish way of management, with its emphasis on decentralized decision-making in a non-confrontational atmosphere. This leadership style has numerous strengths. It also has some weaknesses. We will now look at them more closely.

2 Managing the Swedish way - how does it work?

Academic researchers have carried out several descriptive studies in this field. One of the most comprehensive is that of Sten Jönsson of the Gothenburg School of Economics, Business and Law, “Good prospects. Swedish management in perspective” (Goda utsikter. Svenskt management i perspektiv, 1995). There is also an important work by Ingalill Holmberg and Staffan Åkerblom of the Center for Advanced Studies in Leadership at the Stockholm School of Economics. Holmberg and Åkerblom are the authors of *Primus Inter Pares: Leadership and Culture in Sweden* (2007), based in part on the GLOBE project survey of international leadership cultures. In addition, there are publications from the white-collar trade union Unionen, from the Royal Swedish Academy of Engineering Sciences (Kungl Ingenjörsveten-skapsakademien, Iva) and several other academic institutions and think-tanks.

The conclusions in the above studies tie in well with characteristics identified by my interviewees. Holmberg and Åkerblom conclude that what especially distinguishes Swedish management in an international context are the adjectives “team integrator”, “autonomous” and “humane”. Jönsson summarizes it as follows:

> *“Swedish leadership is vague and imprecise… in giving an order a Sweden will typically say ‘See what you can do about it!’ What does this mean? It is obviously connected with the extensive delegation of authority….It is also a question of exercising control through a common understanding of the problem, rather than through giving direct orders. This must be regarded as one of the strengths of Sweden’s egalitarian society”.*

What, then, are the strongest characteristics of Swedish management. There are several overlaps, but the essence of it is summarized under five headings. They are:

- Meritocratic, autonomous and anti-hierarchical
- Team approach
- No stars, please

- Non-confrontational
- Action-oriented

We will now analyze them one by one.

3 Meritocratic, autonomous and anti-hierarchical

As education levels rise and more organizations seek to utilize the intellectual capital of their people, it seems that steep hierarchies are gradually losing their appeal. This trend is international in scope, and it would apply to most countries and industries. But it is one thing to regard hierarchies as less influential than before. It is quite another to attach an altogether negative value to hierarchical structures – which is what Swedes generally do.

This should all be viewed in the light of what the eminent Dutch psychologist Geert Hofstede calls “the power distance”. His seminal work was originally published in the 1980s and was the result of an exhaustive survey of employees of IBM. The firm was chosen because of its size, geographical spread and many decades’ as a multinational company. Hofstede concluded, among other things, that Sweden and the other Nordic countries had the smallest power distance of all.

This explains the preference for extremely flat structures, even in very large companies. At Handelsbanken, a Swedish banking group with assets of 1,900 billion SEK and more than 10,000 employees, only three management layers separate a junior clerk from the chief executive. Having many people reporting directly may be a challenge for managers. But it also produces tangible benefits in the form of productivity. Happy to work autonomously, with little supervision, Swedish employees are generally very productive. Even large, multinational companies are thinly staffed. Cecilia Vieweg, formerly chief legal officer at Electrolux, notes the following:

> *“We have so few people who need to take care of so much. One may compare with the Americans who have enormous staff functions that are able to prepare for meetings weeks in advance. Or with the Japanese – we will send five people to handle the negotiations and they will send twenty-five. We are always outnumbered.”*

quoted by Viveca Bergstedt Sten in “Negotiate in business” (“Förhandla i affärer”, 2003)

Such corporate structures work hand in hand with what may be described as a meritocratic attitude among the general population. A meritocratic culture means that there are few power struggles. U.S. companies setting up operations in Sweden report the ease with which they are able to integrate local management teams into their global organizations. Shlomo Liran, the Israeli head of a Swedish mobile phone operating company, noted at a Stockholm conference in 2006 that managing a Swedish team is ”mostly logical, very easy and straight forward.”

Ben Holmes of Indexventures.com, which analyzes the venture capital industry, has researched prospects for Swedish start-ups. He noted, in a presentation in 2007, that low barriers between professional categories produce very good results. He calls Sweden “Europe’s most socially cohesive country” and adds: “There is high technical awareness from non-technical staff and reasonable business awareness from technical staff. This means there is no chasm between ‘business’ and ‘technical’ staff”.

Straightforwardness and low barriers may explain the country’s high scores in terms of innovation. Current research indicates that a shortage of ideas is not the biggest obstacle to developing new products and services. Experts in the field, among them Clayton Christensen of Harvard Business School, see at least two much bigger problems. One is to quickly weed out the concepts that do not work. Another is how the company should overcome resistance to implementing innovations among middle managers. Apparently, Swedish firms do well in both these instances. Why is this? Erich Joachimstahler of consultancy Vivaldi & Partners says one explanation may be that it is easier for a team of development engineers to back out of a dead-end project if their employer is operating in a meritocratic culture where titles and positions are not important.

Creating such an environment is obviously not easy. After all, you need to devise a system where management delegates and decentralizes to a large extent, while at the same time retaining enough management capability to control its growth.

The task becomes easier if the organization has strong values. That may seem like a pointless statement. Any successful company, regardless of national origin, would argue that it uses powerful value systems. The theory is that strong values enable people to identify closely with the firm, thus strengthening their loyalty to it. But creating such an environment may be easier said than done. In a culture where hiring and firing is considered normal behavior, such loyalty may be hard to uphold. Not so in an environment such as the Swedish one. In that culture, “management by fear” is considered unacceptable behavior. The fact that the most successful Swedish companies manage to implement their managerial style in parts of the world where the normal way of doing business would be to command and control is an important lesson. It may indicate that the Swedish culture is perceived to be very different, but also that it this adaptable and relatively easy to introduce.

3.1 Case A: Decentralized globalization at H&M

H&M is one of the world's fastest growing fashion retailers, with 2007 sales of 80 billion SEK and an operating margin of 22 percent. It has 1,500 stores in 28 countries and the number of stores have both doubled in the past ten years. Unlike two of its largest competitors, Gap and Benetton, H&M has not had any major setbacks. Its growth plans are ambitious, and on track.

The business concept is based on four things: good product quality, high fashion content, convenient locations and very low cost. This is a difficult combination but hardly rocket science. Yet the firm remains in a class of its own and is highly admired. What is particularly striking is it being the most valued company on the Stockholm equity market (at the time of writing, in May 2008). In a country where manufacturing has long been the dominant business sector, H&M stands out. Another unusual aspect is the makeup of its senior management. The group is family-controlled but is led by a non-member of the family. Its CEO, Rolf Eriksen, was born in 1944. His background is unusual in a business where the average customer is young and female.

The H&M story is of particular interest in an international context. Ten years ago the company had, essentially, only activities in Northern Europe. Today, it operates throughout Europe and in Asia, the Middle East and North America. Eriksen's assessment is that the business concept is "truly global." In countries or regions where market size and prospects do not justify a regular H&M organization, franchise partners are used. The Middle East stores are owned and operated, under license, by a company based in the Gulf.

Despite this, the expansion does not come cheap. Large investments are being made in logistics, business control and training. Prior to the China launch, the management teams underwent three months of intensive training in the Netherlands.

H&M expands its business in a way that could best be described as decentralized globalization. This process means responsibility, authority and control systems are extensively delegated. When a new country is added, a "mentor" organization is appointed. This means that an established national management, retailing and logistics structure is not only utilized for the designated market. It is also charged with running the introduction of a new, nearby country. The U.S. business has helped out in Canada, the Hong Kong team assists with the introduction in Japan and employees in Austria participate in starting up in Eastern Europe. When the Hong Kong and Shanghai stores were established in 2007, more than 100 employees from eight countries took part.

There are several advantages with this strategy. Firstly, it helps keep costs down as H&M does not have to maintain a large centralized staff. Secondly, it helps motivate employees and managers by providing exciting rotation opportunities. Thirdly, structural capital is accumulated throughout the group.

4 Team approach

The Swedish tradition of organizing work is in some ways paradoxical. It stresses the role of the individual – as well as that of the group. This seems confusing. But it was perfectly logical in a poor, sparsely populated agricultural economy with isolated farms where one had the community of the village which helped out in times of harvest and distress but where one otherwise minded one's own business. This explains the preference in Swedish companies for shunning control but still working for the team. Foreign managers in Sweden will find that employees are happy to follow directives, provided that these are loosely set and goal-oriented. The managers will also note that Swedes always expect to be members of a team, but still often prefer to work autonomously. This paradox is illustrated by two observations. One is of the frequent communal coffee breaks in many Swedish offices. The other is the view of the British head of a multinational consultancy's Stockholm office that there seems generally to be less small talk by the coffee machine than in other cultures.

In Sweden, there is little room for "hero managers" in the American mode. Swedish corporate executives are expected to inspire and lead by example and by setting goals. They may be charismatic. Even so, they will involve their team to a much greater extent than in other parts of the world. This is done by carefully anchoring ideas and proposals with their staffs. The practice mystifies many foreign managers. Who may only see an endless series of meetings where few clear decisions are taken.

"Aligning" is perhaps the most accurate term for this process. It is used by Martha Maznevski at IMD Business School and her analysis of the Scandinavian management style identifies the alignment process as much more than a discussion forum. In fact, alignment means getting the team on board while also preparing for action. Aligning the team means that once the manager has made the decision, it can be implemented very quickly. Alignment focuses on the direction of the task to be undertaken – not on its details, which will be worked out later.

The team approach ties in well with the leadership philosophy developed by Jim Collins, author of *Good to Great. Why Some Companies Make the Leap…and Others Don't (2001*). Collins describes a group of firms who have all grown more consistently and profitably than the U.S. average. His research shows that such companies had displayed what he calls Level 5 leadership.

The fifth level is the most sophisticated form of leadership, combining a paradoxical mixture of personal humility and professional will. According to Collins, Level 5 leaders are dedicated and hard-working (“more work horse than circus horse”). High ambition is mainly expressed on behalf of the company – not on a personal level. Executives are mostly promoted from within the company. They also in general refrain from using firings and restructuring programs as the main strategy to improve earnings. One element of the so-called Good to Great companies is that senior management gives employees credit for success, refusing to play the role of hero which often comes natural for example to American leaders. Perhaps most importantly, the companies in Collins’ research prepare themselves thoroughly for successions. They thus tend to safeguard the long-term development of the company.

Another point made in the literature is the team’s focus on the objective and not personal relationships. Ingalill Holmberg and Staffan Åkerblom of the Center for Advanced Studies in Leadership make the following observation:

> *“A distinct feature of teams in Sweden is that the social ties within a work team stem from a common commitment to some particular cause or goal rather than from strong interpersonal ties between the team members.”*

This makes it, among other things, very easy for management to quickly change the company’s direction.

4.1 Case B: The team at work in Shanghai

Is the team approach a good way to run operations in a foreign culture? This topic is addressed in the following interviews:

Angela Zhu, manager, Ikea Store in Shanghai:

> *“The team approach at Ikea, that we have no hierarchy, is very much appreciated. It is a challenge, however, to make sure everyone is certain of their responsibility. We have to assume responsibility. Some of our co-workers and professionals have worked in other foreign-owned stores, such as B&Q, Carrefour and Wal-Mart. They see a big difference. Here, they feel it is OK to act. When we hire new people, we do it by means of value based recruiting. We set very clearly our vision and values – straightforwardness, being humble and taking the initiative. Being humble is nothing new in China, but the way we do it at Ikea is to express our strong desire and initiative in a humble way.”*

Ingrid Schullström, head of corporate social responsibility, H&M:

> *”Our way of working is quite different from what you will find in, for example, U.S. companies. We have an open and honest attitude. We are very clear when we communicate our code of conduct. If a problem would still arise with a supplier (in China) we would not necessarily say ‘what you have done is forbidden’. We would rather communicate the following: ‘tell us what has happened and we will see what we can do.’ Suppliers appreciate the fact that we are not so legalistic, and that we understand everyone can make a mistake now and then. Our management style enables us to have this kind of dialogue. Everyone benefits from it.”*

Charlotte Rylme, head of South East Asia and former manager of Shanghai office at the Swedish Trade Council:

> *”Being a generalist is a challenge in China, as employees often expect the boss to be the most knowledgeable person. Many Chinese have the attitude that they are working for their manager, not for the company. The Swedish leadership style works very well, if you make sure to be very clear in your communication. The culture in Swedish companies is regarded as positive for a number of reasons – one of the more important is the focus on training and competence development. It is important to realize the importance of titles. Chinese employees also expect fair treatment and recognition but also sanctions if this is justified. In Sweden, we use the carrot a lot but almost never the whip. Here, it is expected from time to time.”*

Claes Pollnow, vice president, SKF China:

> *”Chinese employees regard Swedes as friendly but also as rather vague – this is something that we have to be aware of and work with. People notice that ‘ceiling is high’ here. Well-educated Chinese often have experience from working in American, German, Korean or Japanese companies, so they can compare the cultures. One should be careful about making generalizations, but rather many – especially Chinese women – prefer to develop their careers in Swedish companies. Others may want to work in other cultures. Here at SKF China, we are 200 people at the head office. We are 12 nationalities. 30 are expatriates and nine of us are Swedes.”*

Bill Fisher, head of China, EF Education:

> *"The EF management structure is flat, open and casual. It is composed of many cultures, but if you would choose one it would be the Swedish one. We are in the service business and always strive for a flat organization. When you are scaling as fast as we do here, a flat organization is a challenge. At EF, we hate titles, but we have realized that here in China we need some titles. So we have them. When we started expanding here in China, many of our local employees were very cautious. We had to tell the exactly what to do. If we did not do that, they would from time to time invent things to do. In a way we had to force them to innovate, to prioritize, and so on. The team approach means you will get buy-in from lots of people. It is obviously working well in Sweden. Here, you will still instances where employees point at the system instead of acknowledging mistakes. "*

5 No stars, please

”Small country – Large companies” is the slogan used by the Swedish chamber of commerce in China. It certainly tells the truth. During the five years up to 2007, large corporations accounted for 70 percent of Swedish exports. Data from the Swedish Agency for Economic and Regional Growth (Nutek) shows that big businesses accounted for 43 percent of value added in 2007. This is a higher proportion than in most comparable countries. Medium-sized companies represented less than a fifth, 17 percent. Small business generated 40 percent of value.

Unusually thin in the middle, the structure of Swedish business is sometimes known as the hour-glass syndrome. It is a good metaphor and this structure has been in place for decades. But it is not an attractive picture, because in most cases the corporate heavyweights of tomorrow are today’s medium-sized businesses. This obviously has a bearing on the Swedish management style. To some extent, it could be argued that possessing many large companies strengthens the Swedish leadership culture. With so many big firms offering employment, talented young managers have a chance to work in challenging positions – often abroad – at an early stage in their careers. Carl-Henric Svanberg, the CEO of Ericsson, had his first job at ABB. It brought him to Colombia, where he oversaw part of a complex power transmission project while still serving his traineeship. Such experiences may be invaluable later on in a manager’s career. It could be, for example, when launching a start-up or scaling up a medium-sized firm. But the hour-glass structure may also bring significant problems. For managers who fail to win coveted trainee positions or other jobs with the leading multinational companies, the choices may be limited.

Why, then, are there so few medium-sized companies? It may be due to the fact that the large companies are exceptionally successful, which means that their needs tend to influence the economic policy agenda too much. It could also be a sign that relatively few Swedish companies pursue a high-growth strategy. This could mean the overall leadership style may be too risk-averse. It seems clear that few Swedish firms have the resources or the stamina to grow quickly. But it should also be added that in this aspect, Sweden does not appear to stand out in a negative way from other European countries, says Julian Birkinshaw of London Business School. He points out that an

American entrepreneur typically “wants to conquer the world” but that such ambitions are rarely found in European firms.

The perception of the entrepreneur in society has undergone major changes in Sweden. In the 1970s and 1980s, owners of small businesses were taxed at an extreme rate. Starting a business was an unpopular choice for most people. Nowadays, the picture is different. In 2001, 71 percent of Swedes in ages 18 to 30 years said might like to start a business. In 2007 the figure had risen to 76 percent. Perceptions are changing slowly, however. Although entrepreneurship and management careers are seen in a more positive light, managers are rarely encouraged to personally commit themselves to very aggressive growth targets. It is perfectly acceptable to set such goals in a team or firm context. But the role of the individual is played down. The Swedish managerial style is understated, and will remain so.

This may explain why the country’s professional services firms are doing so well. It is striking that Swedish law, accountancy, consulting and finance firms are growing rapidly despite what seems like significant hurdles. Income taxes are steep and employment regulation makes it risky for new companies to hire employees. Yet Stockholm remains the Northern European capital in such services. One example is that revenues in the 47 top Swedish law firms totaled more than seven billion SEK in 2007, an increase of 13 percent over the previous year.

The boom may have several reasons. One is the strength and international reach of multinational client companies. Another important factor is probably also good management. Running a professional services operation in Sweden is normally cost-efficient. Data from KPMG, a major audit, tax and advisory firm, suggests that overhead costs are some 10 to 20 percent lower in a Swedish professional services business than elsewhere in Europe. Managerial effectiveness is probably rooted in part in the inherent preference for the team approach. The flipside of that is the reluctance to stand out. Although attitudes are changing in young generations, this reluctance is still prevalent among many Swedes. This is probably important. Professional services work is to a large extent monotonous because of the sheer volume and complexity of transactions and other projects. (This fact is seldom communicated to clients or aspiring employees). The point here is that it seems likely that a culture which stresses the role of the team, which looks positively on individuals working unsupervised and which regards with suspicion people who stand out and seek star-status is well suited for such employment.

5.1 Case C: Swedish businesses discover services

As many foreign visitors to a Stockholm that, by international standards, almost totally lacked good restaurants in the 1970s could attest to, Sweden has historically not been much of a service economy. The country has excelled in manufacturing things. And it has done so for centuries. But hospitality industries were underdeveloped up until the late 1990s.

Now things are different. Most Swedish companies realize that services will be an ever-growing part of their customer delivery. Ericsson's experience is a case in point.

The group has coped with the very challenging environment for telecoms manufacturers by expanding into services. This strategy was launched at the same time as the firm was fighting for survival in 2002-2003, and was closely modelled on the turnaround of IBM in the mid-1990s. Under the management of Louis Gerstner, who was recruited from food manufacturer Nabisco, IBM turned itself around from hardware manufacturer to become a giant corporate IT services provider and outsourcing partner. Ericsson noted that margins were relatively low in services but went ahead with the venture anyway. The strategy has paid off. In 2008, Ericsson had become the world's leading telecom systems services company with 30,000 staff in more than 140 countries. It maintained networks with more than one billion subscribers.

How was the service mentality established in Sweden? In part, it was thanks to the Swedish scholar and management consultant, Richard Normann (1943-2003). He published *Service Management* in 1983. To date it trails only Scandinavian Airlines head Jan Carlzon's *Moments of Truth* (1987) as the most influential book on leadership by a Swedish author. Normann earned his PhD in management in the early 1970s and then became president of consulting firm SIAR. In 1980, he launched his own business, the Service Management Group (SMG).

SMG was involved in advisory work across several industries, with clients ranging from SAS and ABB to the Italian state railways. He lived in Paris and did not explicitly associate himself with a Swedish management tradition and was indeed strongly critical of the country's regulatory and tax systems. Some of the success stories that he cited were, however, companies launched by Swedish entrepreneurs. In a magazine interview shortly before his death, Normann noted that several Swedish firms were among the best in the world because of their ability to deliver value.

> *"Companies such as H&M, Ikea, Tetra Pak and EF Education have created enormous value for their customers. The owners*

have, as a consequence of this, become very rich. These companies have systematically taken care of their customers, built competence and strong organizations which have proven their ability to innovate and secure better market positions", he said.

Normann's main contribution from a conceptual point of view was to alter the perception of the value creating process. Some of this research was published in *When the Map Changes the Landscape* (2001). His key point was that the value chain analysis, pioneered by strategy guru Michael Porter, was becoming obsolete. The value chain approach identifies a number of actors who add value in sequence until the product reaches the consumer. At that point, the process stops. The customer does not add value. On the contrary, he or she destroys it.

In the era of deregulation and globalization, such a method was increasingly seen as too rudimentary. In 1993, Normann and a colleague, Rafael Ramírez, published a Harvard Business Review piece entitled "Designing Interactive Strategy". Here, they took issue with the Porter philosophy. In Normann's view, the new landscape meant customers, suppliers and business partners were no longer aligned sequentially in a value chain. Instead, he argued that successful companies were operating in a network or "value constellation". In such a system, value is crated when the customer uses the product or service.

A particularly valid example of the value constellation is EF Education, which was born as a summer language school but is today a global education group. Its founder, Bertil Hult, saw a number of unmet needs which could be linked: Swedish students wanted to learn English, school buildings were unoccupied in Britain and teachers on vacation were looking for professional development. Airlines needed to fill empty seats and British families with room to spare wanted to receive youngsters from abroad and help them learn more about language and culture. EF created a value constellation and an entirely new business. Hult did not, of course, start out with the aim of building a value-creating system. Like many entrepreneurs, he stumbled on his business concept after much trial and error.

Another, more well-known example that serves to illustrate the value constellation analysis is from outside of Sweden. The market value of the budget airline Ryanair is now higher than that of large traditional flag carriers such as British Airways. It is a market-shaping force in European aviation thanks to its development of wholly new revenue streams. Ryanair makes big profits despite ultra-cheap tickets because it relies so much on income from other sources (local authorities, hotels, car rental agencies, and so on).

One thing that characterizes Ryanair, EF and Ikea is the flatness of their organizations. It seems that such flat structures are helpful in a value constellation world. It is this world that Richard Normann helped us understand better.

6 Non-confrontational

The non-confrontational, or conflict-avoiding strain in Swedish management is a logical consequence of the focus on teams and cooperation. Swedish managers tend to communicate in an understated way. "Understated" may often be perceived as "vague", especially by foreigners.

There are significant advantages with such behavior. A manager who seeks out the opinion of others and acts in an inclusive way, may be more productive than someone who runs his or her business by giving orders. Mats Lindgren, head of the research firm Kairos Future, noted at a conference in 2008 that Swedish companies have few managers per employee. The corporate support units in large companies are also very small in an international comparison.

> *"Swedish managers see their staffs as capable of doing the work without supervision. This means there is no need for control or direction. One could say they under-control, because of their high trust in their people,"*

says Mats Lindgren.

Jonas Åkerman, head of U.S. operations at BTS, a leading executive development company, says Swedish managers

> *"…tend to be well liked. They will generally listen, and they don't pretend to have all the answers, at all times."*

He also notes that this willingness to accept opinions of others may mean they do not, in the least, feel threatened if employees have superior competence in some areas.

There is also a darker side. The reluctance to confront employees may prompt the Swedish manager to try to find common ground and to compromise to keep the peace. Common ground may often be an inferior alternative to tackle an issue head-on. Birgitta Johansson-Hedberg, former chief executive of the Swedbank finance group, said in an address in Stockholm in 2008 that the Swedish management culture is highly competitive in its informal atmosphere and focus on processes (getting the job done) rather than structure (hierarchies and power). But she criticized the lack of control.

> *"Things have improved in recent years, but there is still a fear of evaluating people. It was only when I became country*

> *manager here of a Dutch company that I became exposed to follow-up and control".*

Her message was that the fear of confronting employees or fellow managers means management may refrain from using this valuable tool.

Bruce Grant, chief executive of Applied Value, a specialized management consultancy firm operating in Sweden and abroad, says Swedish managers often think problems can be solved by providing employees with more information. He describes this attitude among Swedish managers as follows:

> *"If only staff had the full picture, they would act in a more logical way."*

In other words, Swedes would regard most problems as communications problem. Grant has many years experience of Swedish business and says:

> *"It is appalling that people further down in an organization are allowed to revise decisions that have already been taken – and then get away with it".*

One example of such behavior is the insurance group Skandia. Founded in 1855, the company was an industry leader in Northern Europe in the 1980s with operations in life, property and casualty insurance. It also had a sizeable fund management arm, mainly based in Britain and the U.S. In the late 1990s, Skandia expanded hugely in the American mutual fund business. Its U.S. headquarters in Connecticut occupied a series of big office buildings with stunning views of the New England countryside. Five years later, after the 2000-2002 stock market crash, the company's international unit had become a shadow of its former self. The business model had depended on a steady increase in fund flows. When the market turned, the structure collapsed. Losses were huge and Skandia was picked up for a fraction of its 2000 value by South Africa's Old Mutual.

It was not all bad luck. Skandia's top management was charged by prosecutors for manipulating incentive schemes to earn excess amounts in the fat years. In his defense, the Swedish chief executive – who has to date won acquittal from the charges – noted that lavish options contracts were necessary to keep Skandia's American managers from leaving for other jobs.

There is a management lesson in this. It has nothing to do with the reckless expansion which caused the company's near-failure. The main point is that conflict-shy Swedish managers and board members sometimes do not dare to confront subordinates who violate orders or agreed directions, for fear of "rocking the boat". This reluctance seems to be particularly strong when it comes to dealing with managers of American subsidiaries. Such conflict-avoiding behavior towards a foreign subsidiary is unusual elsewhere in the world. It has, however, also occurred on other occasions than in Skandia when Swedish companies have set up businesses in the U.S. Examples of such "abdication" by group headquarters to local American management were evident in at least two other major Swedish companies: Trygg Hansa (another insurance firm) and Stora Enso (a forest group). It should also be noted that, overall, the U.S. market has proved extremely challenging for Swedish companies. ABB, Atlas Copco, Electrolux and Gambro have seen costly acquisitions turn bad. It is likely that this is at least in part due to the clash between an aggressive American business culture and a non-confrontational and more informal attitude among Swedish management.

Many ventures into the U.S. are, however, also successful. Volvo's move into the U.S. truck market, Skanska's expansion in specialized construction, and H&M:s roll-out across the nation – to name just a few - have all gone well. This shows that differences in managerial style need not be a major handicap for a Swedish company.

Big manufacturing groups are often at the center of attention by media and management researchers. This means it is easy to overlook trends in services firms, such as consulting companies. These companies need to build structural capital in the form of common processes, case histories, data bases and other assets. Börje Ekholm, head of the Wallenberg group investment firm Investor, says this requires a high degree of discipline. In an address at the Royal Institute of Technology 2007, he pointed out that Swedish consulting firms may be successful but they lag their American and British competitors when it came to forcing and incentivising employees to document their work and add to the common know-how of the firm.

Striking a balance between teamwork and structure, or, for that matter, between creativity and control is a difficult task. Martha Maznevski of IMD held a seminar with Scandinavian managers recently to discuss her paper "The Dark Side of Scandinavian Management". At the event, several Swedish participants gave the Swedish government's handling of the 2004 tsunami disaster as an example of conflict-avoidance at its worst. More than 500 Swedes perished in the Asian catastrophe. Sweden was among the last nations to dispatch rescue planes and emergency aid and a parliamentary commission singled out the then-prime minister for mishandling the crisis through neglect and passivity. It also found that government officials failed to act for fear of taking the wrong decisions. The event contributed to the government's defeat in the 2006 elections.

But this example is not entirely convincing. Passivity due to fear of authority is, in fact, more common in other cultures. In general, both Swedish managers and employees are biased for action. In U.N. peacekeeping force deployments in past decades, it has often been proved that Swedish contingents are well-regarded. This is because common soldiers are able to take initiatives on their own instead of simply awaiting orders from their superiors. It should also be noted that a similar natural disaster in the United States, the 2005 Katrina hurricane in New Orleans, caused massive losses in the approval ratings of George W. Bush. The reason was the slow and inefficient rescue operation.

6.1 Case D: An entrepreneur extraordinaire

The Swedish equity market has a number of high-profile companies, mainly in engineering and finance. But the high-growth sector is small in size. Among the telecoms and media firms, one thing stands out. It is the presence of the Kinnevik group of companies, founded by Jan Stenbeck (1942-2002). It accounts for 70 percent of the market capitalization in media and 30 percent in the telecom operating sector. The group's assets range include Metro, which pioneered the free-sheet daily newspaper, Millicom, which bought mobile phone licenses in remote parts of Asia as early as in the 1980s, MTG, a major East European television channel and Tele2, a large European telecom operating company. They were all essentially built in just two decades.

Why was Stenbeck so successful? And why is the group still intact and prosperous - although it now grows more slowly? An Ivy League MBA education and a Morgan Stanley partnership certainly helped, as did a big family fortune in forestry and engineering companies. The paper firm, Korsnäs, is still in the family. Korsnäs plays the role of cash-cow for various projects elsewhere. Stenbeck was also fortunate in that he could take advantage of the deregulation of the airwaves and shift from fixed to mobile phone technology.

But why was he successful in a Swedish environment? "He would have made it big in the United States too, if he had chosen to build his business there", says Bruce Grant, who worked in Kinnevik before founding Applied Value. He points out that Stenbeck regarded consensus "as a four-letter word". The implication is that Stenbeck thrived despite the Swedish managerial culture – not because of it.

This probably does not tell the whole truth. In fact, Jan Stenbeck delegated many of his decisions to his executives and he did this to a greater extent than is normally the case in U.S. He also chose his senior people for their competence – and independence. Lars- Johan Jarnheimer, head of Tele2 who began his career at Ikea, told this story in 2003.

> *“I talked to Jan in the late 1990s about making a major takeover of an Eastern Europe. He was almost careless about it, and said: ’Yeah, go ahead if you think it’s a good idea’. But then we started discussing the layout of our new SIM cards. He didn’t yield an inch. It should have this and that color and the beagle dog logo should be at the center and so on. That’s where his heart was on that occasion”.*

The anecdote shows Stenbeck’s passion for branding and marketing. But, more importantly, it indicates the trust in his subordinates and extensive delegation of power. It is difficult to envision such a process in a more centralized corporate structure, which would be the norm in most parts of the world.

6.2 Case E: A tale of two managerial cultures

Scene 1. Hallsta paper plant, Sweden

The two billion SEK paper making machine, one of several owned by the Holmen group, is as long as a football field. On this day in late October, it is, however, paralyzed. A breakage in the paper web has stopped production. Accompanied by the plant manager, we enter the vast building. The control room, with its computer terminals and modern Scandinavian furniture, is the forum for intense discussions. Half a dozen men in dark-blue overalls have a conversation over the loudspeaker with two colleagues who try to locate the fault from inside the belly of the machinery.

Shortly afterwards, we leave the building. The autumn wind from the Baltic Sea makes us long for our overcoats which are left behind in the office a few hundred meters away. I ask the manager how much the stoppage will cost. The answer is “a lot, but it will soon be fixed”. I persist:

> *”You were very calm with your people. Why was that?”*
>
> *”It is never a good idea to criticize somebody when they have made a major error. That would not contribute anything. The person who has made the mistake, he is aware of it. If I need to tell someone that he is not attentive enough with his unit, it is much better to tell him off in a management meeting over some detail. You could tell him that the factory floor is not clean enough, or something. You have to show people respect. They will get the message.”*

Scene 2. Corporate head office, Bangalore, India

The meeting has been going on for some 45 minutes. The marketing director, a powerful man, educated at a British university, gives a presentation that is "exactly right". Rich in detail, anecdote and with a focus on the big picture. Pride and enthusiasm is evident as he shows his visitors how India is modernizing at a rapid pace.

A map of the subcontinent appears on the screen.

> *"Did you know it takes almost as long to fly from here to Dehli as to cross Europe from North to South?"*

A new image. Strikingly beautiful cave paintings from 1000 years B.C.

> *"Science and learning have long traditions here. The very first universities were located in India".*

Suddenly the door to the conference room opens. The company's president enters. A slightly older man, wearing a slightly more elegant suit. A thick gold ring on his finger. He greets us, and something odd happens to the marketing director. He *shrinks* in front of our eyes. He moves to the side, shoulders lowered and his sight starts to stray. The president commands the room. He starts to talk, occasionally being seconded with an officious comment from the marketing director – who has lost all his power and all his confidence.

7 Action-oriented

It is easy to believe that a team-based management culture should produce slow decisions. A hierarchy may have all kinds of negative connotations, but decision-making should at least be efficient. Most people would agree that when decisions are taken in a group context, the process will be lengthy as opposed to when one person is in charge.But this is not supported by the data from surveys such as that of IMD's Cultural Perspectives Questionnaire database. Bain & Co research has also identified the Swedish business culture as having "a bias for action". This seems logical when one considers the competitiveness of Swedish companies in an international environment and their ability to adapt.

But how is it possible to have quick decisions and action in a team-based, non-confrontational atmosphere? Martha Maznevski of IMD has an answer:

> *"We must remember that the consensus-seeking process where management aligns support for a certain direction is not just a way of getting everyone onboard. It is also a preparation for implementing the decisions. The decision-making process is embedded in the alignment process. This makes it very efficient"*.

In other words, Swedish management may fall behind in the lengthy consultative ("anchoring") process, but is then able to move with lightening speed as soon as a decision is taken.

Two anecdotes illustrate this point. Both took place in the late 1990s, which means we can observe them with the benefit of hindsight. The first is Volvo's four billion SEK acquisition of Samsung's entire commercial vehicle division in 1998. The deal was negotiated and concluded rapidly at a time huge turmoil in the Asian and Korean economies. Regarded as a risky move at the time, it is today considered one of the most profitable takeovers ever undertaken in Asia by a Western company. The second example is from the same era, but in a completely different sector. In the mid-1990s, Swedish companies had become early adopters of internet technology. Prime minister Carl Bildt and Bill Clinton had the first exchange of e-mail messages between two statesmen in 1993. The Swedish equity market gradually became dominated by technology and internet stocks. In early 2000, a small internet consulting company with little revenue and almost no assets had a larger market capitalization than that of engineering multinational Sandvik.

Entrepreneurship in the sector was vibrant. Newsweek magazine dubbed Stockholm “The Internet Capital of Europe”.

These events played out very differently. Volvo-Samsung was a huge success while the internet businesses folded one by one. But the anecdotes show that Swedish managers are not averse to taking bold decisions.

Christian Ketels of Harvard Business School sees one possible reason for the willingness to try out new ventures.

> *“When I first came here I was struck by how interested Swedes seem to be in everything new and innovative, at the expense of treasuring what is tried and tested”.*

Mary O’Sullivan of the Wharton School points out that taking risks is easier in a climate of trust.

> *“If somebody can fire you as of tomorrow, you can find yourself out of a job in no time if you do not check carefully with the boss before you go ahead.”*

She says “the era of mass downsizings” in the United States has imposed a more risk-resistant culture in business.

Of course, not all corporate decisions may be taken in a positive atmosphere. It may be equally important to be able to cut costs, shut facilities and fire employees. This is often necessary even in benign times to meet the financial targets imposed by private equity owners or to keep the stock market happy. In times of crisis, such decisions may be vital to a company’s well-being.

It appears likely that Swedish managers are as capable at taking action in such situations as their colleagues in other countries.

7.1 Case G: How Ericsson fought back

The Ericsson experience in the years 2001-2004 is a good example of such decisiveness. When the market for telecom equipment imploded shortly after the Millennium, Ericsson was very exposed. As the world leader in mobile systems, it stood the most to lose when telephone operating companies cut costs to stay afloat.

Ericsson responded quickly under its chief executive Kurt Hellström and chief operating officer Per-Arne Sandström, who is the unsung hero of this period. From a high of 107,000, the work force was more than halved to 50,000 in the space of just three years. Adopted and carried out with full acceptance of the company’s union representatives, the restructuring.included the closure of dozens of production plants and the retreat from a number of business areas. The mobile handset unit was merged with that of Sony to form what is today the successful Sony Ericsson company. This did not stop the outflow of cash. To stave off the threat of bankruptcy and retain the confidence of customers, new shares to the enormous sum of 30 billion SEK were issued on the stock exchange in August 2002, a time of great turmoil on equity markets.

The operation succeeded. Ericsson survived. What is unusual about the episode is that the company managed to cut itself in half while still retaining its edge and ability to innovate, operate and grow. Since then, the group has expanded. Its 75,000 employees man a different operation than the one that existed in 2000. Mobile systems is a smaller part of the group, the service unit is growing fast and multimedia is a promising future business.

8 The origins of Swedish management

To determine the competitiveness of Swedish management, we will look more closely at how this organizational style has evolved. We will do this by reviewing several angles. One is the cultural and institutional framework, which is seen through the prism of Swedish history. Another angle is the national economy. Economic growth and other macroeconomic trends are important in a management context in that they are influenced by developments in the corporate sector - thus offering insights into the national management culture.

Sweden is cold, thinly populated and on the periphery of Europe. Agricultural yields are low. This left little room for a sizeable class of nobility. Independent farmers, not subsistence peasants, have always made up the bulk of the population. Great distances and a harsh climate shaped a tradition of collaboration. The fact that there were few social strata made it easy for Sweden's warrior kings to field highly effective citizen armies during the 17th and 18th centuries. Many officers rose from the ranks of common soldiers. The recruitment process was largely meritocratic, meaning the best were often able to assume high positions. This enabled the country to punch way above its size and small population. For one century, its empire covered much of Northern Europe until a resurgent Russia under Peter the Great appeared as a significant balancing force. The successive battlefield victories were not all due to good manpower material and skilful strategy and tactics. Economic and demographic factors also played a role. We will now look at them more closely.

In the pre-industrial era Sweden had a reasonably well-educated populace and the known world's largest copper deposits. In the late 19th and early 20th centuries, the twin advantages of elementary schooling for all (mandatory from 1842) and abundant ore and timber resources paved the way for rapid industrialization. The early 1900s saw the founding of Asea (today part of ABB), Ericsson, SKF and many other successful Swedish companies. In the 1930s, the country, then with a population of just six million, had as many as nine companies with manufacturing operations in the three hemispheres of Europe, Asia and the Americas. They were Aga, Alfa Laval, Asea, Atlas Copco, Electrolux, Ericsson, Sandvik, SKF and Swedish Match.

This lift-off coincided with an equally important development. During the 1930s, the Swedish trade union movement had come of age as a partner to the business establishment. As in other countries, the path to a modern society was marked by conflict between employers and workers. Union membership rose at a rapid pace. In 1906, the employers took the important step of recognizing the right for labor to organize. But employers successfully resisted demands for big overall pay increases. A widespread general strike in 1909 ended in defeat for the trade unions.

The 1920s and 1930s was a period of substantial changes in the structure of the labor market. Industry overtook agriculture as the main means of occupation. The employers in the expanding manufacturing sector also accepted the advantages of collective wage bargaining. In a landmark agreement in 1938, unions and employers agreed on the principles of a well-ordered labor market. The pact also recognized the need for enterprises to continuously rationalize their operations, even at the price of job cuts. In the post-1945 era, Sweden enjoyed a boom. The country had managed to stay out of the Second World War and its manufacturing sector was intact. This meant Swedish firms could deliver goods to a reindustrializing Europe much in the same way that they are now supplying the economies of Asia. It was in this context that an active national discussion on successful management methods took form.

8.1 Case H: Employers and unions drive rationalization

The 1938 agreement, signed at Saltsjöbaden near Stockholm, was significant in several ways. It paved the way for decades of near-total industrial peace. It also meant that employers and unions assumed responsibility for regulating the labor market on their own. Parliament would, from then on, legislate but the implementation and adaptation would be left to the representatives of companies and employees. The bulk of the legislation affected areas such as pensions, social welfare and occupational environment, which have little relevance in a discussion on Swedish management. But there are important exceptions. One was the so-called solidarity wage policy, whereby the unions accepted that the process of rising pay levels would force low value added production out of the country. Another example was the focus on rationalization in existing businesses. There was consensus in Sweden during the 1950s and 1960s that efficiency programs and measures – and also allowing immigration of workers from other countries - were for the common good.

Employers reached out to unions in a way that today seems idyllic. One should, however, remember that this happened at a time when the economy grew by an average of at least four percent annually. The labor shortage was severe and companies had every incentive to try to woo workers. In 1961 the Swedish Employers' Federation (Svenska Arbetsgivarföreningen, SAF) launched a project within the area of "corporate democracy". It had three key objectives: productivity, work satisfaction and balancing the interests of employers and employees. Numerous case studies were commissioned, in close cooperation with firms such as Atlas Copco. In 1965, the federation formed a separate technical department staffed with academics and experts from member companies. Its work centred on how businesses should best be organized and led. Innovative aspects of management were stressed. Traditional management philosophies, such as those embodied by Frederic Winslow Taylor, were replaced by socio-technical ideas of job enrichment, autonomous teams and the involvement of employees in planning and decision-making processes.

The technical department did not operate in a vacuum. A number of other institutions were also involved in developing and testing new management methods. One example was the Personnel Administrative Council (PA-rådet), a think-tank run jointly by the federation and the trade unions which introduced human research management into Sweden and also sponsored the first academic studies and the first academic chair in management in the country. Another example was a joint union/employer development council task force for research (known by its Swedish acronym URAF). The Swedish Institute of Management (Institutet för Företagsledning, IFL) and ALI/RATI (Arbetsledareinstitutet-Rationaliseringstekniska institutet), a think-tank specializing in teaching management and rationalization to union and employer representatives, were at the forefront of advanced management training. The consulting firm SIAR (Swedish Institute for Administrative Research) played an important role in spreading knowledge to companies and institutions in Sweden and other countries. The government was also active by various means. The Industry Ministry co-sponsored a delegation for corporate democracy.

It is important to note that this activity was not in any way seen as alien to the everyday productivity work in companies. Swedish businesses were early adopters of advanced U.S. rationalization techniques, such as motion-time methods (MTM). The point here is the following: the occupational innovation projects within the Swedish institutions were seen as complementing events and processes on the factory floor.

9 The golden age of Swedish management

It is not surprising that Sweden thought it could teach the outside world a few lessons in the post-World War II era. In the late 1960s and early 1970s, it ranked among the top three or four in GDP per capita, along with the United States and Switzerland. The economy grew rapidly. In the mid-1960s investment corresponded to 30 percent of GDP – much the same relation as in China today. Sweden built for the future, and was seen as representing that future. A steady stream of foreign delegations and fact-finding missions visited companies, business organizations and government agencies in the country. Its leading management and technology consulting firms did a brisk business overseas. SIAR became an influential international strategy consulting organization with offices in Sweden, Finland, Germany, Britain, France, Italy, Spain, the U.S., Japan and Singapore.

Like all other industrialized nations, Sweden was hit hard by the oil crises of 1973-74 and 1979-80. The soaring costs of producing non-oil commodities affected key sectors in the economy. Its huge shipbuilding industry, commanding 10 percent of the global market and second only to that of Japan, collapsed. The steel and paper industries underwent painful restructuring.

But the overall impact on the economy was limited. Unlike many other nations, Sweden chose to devalue its currency and to boost government expenditure. Taxes rose sharply, from 27 percent of GDP in 1960 to 50 percent in 1980. The adverse effects this had on the economy were not immediately evident, however. Public opinion paid little attention to the fact that Tetra Pak and Ikea moved their domiciles to Switzerland and the Netherlands, which lacked the steep tax rates for controlling interests in companies. In the 1970s, a number of far-reaching legislative acts were introduced governing the right to leave for sickness, studies, union work and other purposes. These strengthened the position of unions at the expense of employers. An increased number of strikes and lockouts affected most sectors of society.

Even so, the 1980s were marked by relatively strong growth and rising asset prices in the Swedish equity and real estate markets. Stringent foreign exchange controls and interest rate ceilings overshadowed high inflation and a negative savings rate. Leading corporations such as Asea, Volvo, Saab, Scania, Atlas Copco and SKF were seen as stars in their respective industries. The truck and car manufacturers benefited from the ultra-strong dollar.

Pehr Gyllenhammar, chief executive of Volvo, was the dominant figure in business at the time. His views on the advantages of size and diversification were evident in the structure of the group. In the early 1980s, Volvo not only made cars, trucks, buses and earth moving machinery. It also produced ski boots, traded commodities, brewed beer, rented cars and manufactured canned fish. In those days, of course, the conglomerate was an entirely accepted way of structuring a firm. Size, stability and reducing risk were regarded as important goals. Financial performance was less of an issue. This explains why leadership gurus such as professor Michael Maccoby paid frequent visits to Sweden, and in particular to Volvo during the 1970s and 1980s.

Another prominent executive was Percy Barnevik of electrical equipment group Asea, which today is part of ABB (Asea Brown Boveri). Barnevik was a dynamic but also more traditional leader. During early and mid-1980s, Asea's sales increased and its earnings rose sharply as the company was divided into profit centers where managers were evaluated on how they did in relation to strict profitability targets. A 16 percent devaluation of the currency in 1982 meant that exports from a Swedish production base became highly profitable. Asea was one of the companies that benefited the most. Barnevik was featured on the cover of Fortune magazine accompanied by the headline "Sweden - Europe's Industrial Powerhouse".

When Swedish industrialists, engineers and sales representatives travelled the world, they did so mostly on Scandinavian Airlines System (SAS) flights. Its chief executive, Jan Carlzon, showed that new and innovative management ideas could also be applied in the services sector. But Volvo remained by far the country's largest corporate entity. The Volvo approach to management and work organization overshadowed that of all other companies. It traced its origins to a lively – and at times heated – debate in the 1970s on occupational environment and work organization. Factory work was perceived by many politicians to be exploitative in nature because of noise, pollution, occupational hazards and other problems. The assembly line at Volvo's Torslanda plant was singled out as one of the most unsound environments in Swedish industry. Gyllenhammar's decision, in the early 1970s, to address this problem by establishing a new generation of manufacturing plants was applauded as a visionary step.

There was also, it should be noted, a sound business case for making such investments. Absenteeism and short-term sick leave were at a high level in the 1980s. This was partly due to generous compensation regimes under the terms of the state sickness benefit scheme. As a result, as many as one fourth of all workers on the payroll in Swedish manufacturing businesses in the 1980s were absent on an average working day.

The answer to the calls for a more “human” work environment was the Kalmar automobile plant, inaugurated in 1974. At its site in Southern Sweden, which is today a storage facility for furniture while the vast parking lot serves a local Ikea store, so-called cellular work teams assembled the cars. Volvo had planned the factory as one that would not need a conventional assembly line. There were very few foremen and production teams moved the vehicles forward at their discretion. It was a very quiet and peaceful environment. But it had one handicap. While a normal car plant in most countries would roll out several hundred thousand cars per year, the Kalmar factory was only designed for some 30,000 units annually. Some of the investment costs had been offset by means of local and central authority grants and soft loans (this had also been the case when two other car plants were established by Volvo and Saab in Uddevalla and Malmö, respectively). Subsidies could not cover the running costs, however. With their expensive equipment and low volume, the cost position of the new-generation plants became precarious when the world economy turned downward in the early 1990s. Volvo closed the Kalmar factory in 1994, idling more than 800 workers. By then the economic climate was an altogether different one from the earlier, sunny days.

9.1 Case I: The Carlzon phenomenon

The term “phenomenon” is sometimes used carelessly. But in the case of Swedish airline executive Jan Carlzon and his 1987 management book “Moments of Truth”, it seems justified. A bestseller that was eventually to be translated into 19 languages, the book appealed to numerous audiences. It was widely read in the late 1980s among the general public and also by some politicians. Bill Clinton commented on it during his campaign in New Hampshire in January 1992 and management guru Tom Peters wrote a foreword. He called the book “a marvellous contribution to our urgent effort to fundamentally redefine our organizations for the brave new world that is upon us”. Robert Crandall, head of American Airlines, commented:

> *“Carlzon highlights the importance of the activist manager and emphasizes how forcing down decision-making down to the corporate cutting edge can have real impact”*.

But who was Jan Carlzon? And how did he develop a leadership style that had, according to the Financial Times at the time, “drawn the gurus of modern management theory to Scandinavia…like bees to a honey-pot”?

Carlzon, today a private equity entrepreneur and also active in public life, was already well-known in the Swedish business community. In the 1980s, he ran SAS, a flag carrier controlled by governments and businesses in Sweden, Denmark and Norway. Its home market of some 20 million people was small. But it had a lucrative client base among the region's many large corporations. Carlzon is credited with turning SAS around financially and – in particular – with developing a new approach to customer service in Swedish commercial life. As he saw it then, Sweden, had had it too good for too many years in the post-1945 period. The easy times had enabled companies to relax too much. Sales volumes were more or less a given at a time when Continental Europe had been devastated by war. "Swedish companies delivered on order, their leaders never became business people", he argued. SAS, however, would be an exception. By ensuring the customer was always satisfied, the airline would win market share, he argued.

With hindsight, Carlzon's accomplishments seem modest. In the 1980s, the airline industry was heavily regulated. Low-cost competitors like Ryanair and Easy Jet barely existed. Corporate travel expenditure was rarely subject to the same intense scrutiny as it is today. And the turnaround did not last. SAS' high cost base remains a big handicap to this day. At the time of writing, the airline is struggling.

But Jan Carlzon's contribution to the understanding of modern business remains solid. His work at SAS is, from time to time, brought up as a successful change management case at Harvard Business School. Carlzon is recognized for adding a new dimension in the services industry. He did it by stressing the need for a service sector company to devolve initiative and decision-making to the frontline employees – be they at an airline check-in counter, in a hotel or in a store. This ran against the established norm that all that a good service business needed was efficient processes. The U.S. service sector giants such as McDonald's and Disney had perfected this art. They did it through a devotion to detail.

Carlzon saw that in higher value added industries, this was not enough. An airline needed employees who could think and act on their own initiative. This was a revolutionary concept in the 1980s. It is intriguing that it was a business leader from a small European country, where customer service was mostly bad or indifferent, that made these discoveries. One reason is probably that Swedish companies had, and still have, rather flat organizations. In a consensus-seeking culture, "management by fear" is normally rare. This made it relatively easy to empower employees. And it was this line of thinking that enabled SAS, briefly, to capture the attention of outside business world.

10 The decline of Swedish management

The beginning of the 1990s marked the end of the golden era for Swedish management. From then on, little was to be heard about the concept for a number of years. This was partly due to the harsh economic conditions. The Swedish economy abruptly went from boom to bust. From 1991 to 1994, GDP fell for three consecutive years – a depression-like, almost unique peacetime event in an industrialized country. As much as 25 percent of manufacturing capacity was wiped out. Overall unemployment shot up from a negligible 2 percent to 12 percent. The latter figure was worse than the European average. The underlying causes of the underperformance were latent inefficiencies in the protected and regulated sectors in the economy, as well as policy mismanagement. A 1993 government-sponsored commission headed by Professor Assar Lindbeck of Stockholm University and with several foreign contributors concluded that a number of factors had brought about the collapse in the economy. Credit growth had been too rapid, taxes had been increased too much, wages had spiraled ahead too quickly and deregulation had been too half-hearted.

It was not all the politicians' fault, however. Companies in many sectors had become complacent. Even the car industry, which needed to be competitive as it had 80 to 90 percent of sales outside Sweden, did poorly. In 1980, the Swedish auto companies had been almost as productive as their Japanese competitors. By the early 1990s, an efficiency gap had opened up. In 1993, productivity among Swedish car makers was 20 to 30 percent lower than in Japanese firms. With these difficulties in mind, the country was no longer much admired. In fact, it was seen as a dangerous example of how a nation could jeopardize, if not destroy, its competitive edge. This analysis also affected confidence in the way businesses were run. Sweden was no longer seen as a success-story when it came to managing companies.

Other factors also contributed to the decline. One important aspect was the increased intensity in competition worldwide. This was the result of the opening up of Asia and Eastern Europe as a low-cost production base and of the revolution in IT and telecommunications. Rapid alignment of costs became a necessity. Volvo and Saab closed their most inefficient plants. The factories at Kalmar, Uddevalla and Malmö, all built at great expense and all designed for self-governing work teams were shut down. There is probably nothing that symbolizes the changed times more than the resignation of Gyllenhammar in December 1993. The Volvo chairman had tried to merge the group with Renault of France with the aim of achieving greater size and, in due course, better economies of scale. But shareholders in Volvo and middle management rebelled, pointing out that Volvo would do better on its own. Their views carried the day.

The pressure on costs was felt throughout Swedish business. The experience of ABB was illustrative. From 1991 to 1993, 25 percent of employees were laid off at ABB's Swedish operations. This was achieved through the so-called T50 project, which stood for halving the time from order reception to customer delivery. T50 ("Time 50 percent") enabled ABB to cut its capital costs sharply, while also providing better customer service. The project was an important one, focusing attention on the fact that expenses could be cut and activities could be sacrified without harming the productive core of the business.

The early and mid-1990s saw a shift to a much more financially driven management philosophy. Size and volume was no longer a valid proposition to the stock market. Return on investment became the dominant consideration. Following the publication of a landmark Massachusetts Institute of Technology study in 1990 (*The Machine that Changed the World*), it became evident that growing a company on the global market required a lean production structure. The lean production concept stressed the importance of stripping out all activities that failed to add value to the production process. In this context, teams that operated with a high degree of independence, such as in the Swedish car plants, seemed unnatural. Meeting production targets and safeguarding the bottom line became paramount. The assembly line was brought back and a host of management theories, among them business process re-engineering, Six Sigma and economic value-added (EVA) emphasized this cost-focused approach. In the view of many leaders, the implementation of such strategies appeared to be the only logical way forward.

This way of thinking resonated with corporate executives worldwide. Sweden was no exception. Actually, one could make the argument that Swedish businesses were particularly quick to adhere to the cost-oriented philosophy. This was hardly surprising when one considers the changes that the country's corporate sector went through. A key change was the transfer of ownership from domestic owners to increased foreign control. This was a dramatic process. Since 1994, more than 1,300 Swedish medium-sized and large companies have been acquired by foreign firms. In 2007, more than half a million Swedes had non-Swedish employers. In the past two decades, the percentage of private sector employees working for foreign companies increased from less than 10 percent to 25 percent. A number of Sweden's leading companies were acquired by overseas investors, including Volvo Car Corporation (bought by Ford), Saab Automobile (General Motors), drug group Pharmacia (America's Pfizer), industrial gas firm Aga (Germany's Linde) and the forest company Stora (Finland's Enso).

Overall, this was a positive development. The new owners brought in investment muscle and know-how. The Swedish car industry as we know it would not have existed without foreign owners. To take just one example: between 1990 and 2004, GM invested 20 billion SEK in the Saab operations.

One consequence of the foreign acquisitions was, however, that the concept of Swedish management became less obvious. A Swedish-based company had its distinct culture, rooted in national traditions. This culture, over time, was to be replaced by that of the acquiring firm.

As the corporate landscape shifted during the 1990s, the role of the corporation in the eyes of politicians and social scientists also changed. The high profile consulting firm SIAR folded. The think-tanks and management research organizations formed by employers and unions in the golden era lost much of their funding, shut down or switched their activities. In the mid-1970s, a significant share of Swedish academic researchers had embarked on programs in occupational environment, industrial relations and participative work environments. This field of "working life research" was closely linked to management. But its primary perspective was that of the employee, emphasizing physical and social problems of the occupational environment. The approach was institutionalized through the creation of the Center of Working Life (Arbetslivscentrum) in 1976, which explicitly had the employee perspective as a point of departure for its research and development.

In a parallel development, the employers' federation decided to withdraw from all centrally mandated cooperation schemes. The rationale was the perception that the centralized organizations (the Trade Union Congress – Landsorganisationen, LO,, in particular) had become too powerful. The employers wished to devolve all negotiations and decisions to industry level – or, ideally – the level of the individual company. The federation's technical department and its consulting practice the Swedish Management Group (Svenska Managementgruppen) were closed down. A few years later, its research institute, the Swedish Council for Management and Work Life Issues (Rådet för företagslednings- och arbetslivsfrågor, FA-rådet) ceased to operate. This development meant that the management approach and the organizationoriented focus was abandoned in policy development. It was regarded as more important to try to directly influence politicians and the general public by putting forward macroeconomic arguments.

The 1990s also witnessed the entry into Sweden of the global management consultancies. In Sweden, these firms had been little more than boutique operations in the preceding decades. With globalization and the leaps in communications technology, their expertise in research and strategy became much sought-after. By 2008, consulting firms such as McKinsey, Bain, Boston Consulting Group, Booz Allen and Accenture had become multi-billion dollar businesses. They have clients all over the world, in almost every industry. Their ability to wring synergies from their diverse operations and vast databases is unparalleled and their structural capital is immense. Their competence is marketed and sold all over the world, with a huge impact on the world of business. And what about their perspective on the world? What is it like? The brief answer is that it is heavily standardized and, to a large extent, based on assumptions of major U.S. multinational corporations. Their approach seems to work well. But it obviously leaves very little space for leadership styles based on national cultures, such as the one that signifies Swedish management.

10.1 Case J: Losing the life science edge

In the mid-1990s, there was no doubt which country was the leader in pharmaceuticals and biotechnology in the Nordic area. Sweden was on top. Astra (now part of Astra Zeneca) did well, along with Pharmacia and there were a number of highly valued biotech start-ups on the stock exchange. The Danish companies were small and had less exciting prospects.

In 2008, the tables have turned. Astra Zeneca and Pfizer (which acquired Pharmacia) have cut staff sharply to reduce costs. The inability to create new big-selling products and sharp competition have impacted revenue negatively. Market valuations have fallen. In Denmark, on the other hand, the market value of the leading company, Novo Nordisk, tripled during the past five years. In 2007, the capitalization of the six largest Danish publicly quoted pharmaceutical research companies was more than twice that of the 13 Swedish firms. According to a survey by Ernst & Young, the Danish firms have more than twice as many projects in clinical trials than the Swedish industry. The Copenhagen Business School has also found that Denmark has created more new corporate ventures and more job opportunities in the sector. In the 1970s, Sweden had a number of medium-sized pharmaceutical firms: Aco, Astra, Ferring, Ferrosan, Kabi, Leo, Pharmacia and Vitrum. A number of mergers and acquisitions in the following years reduced this to two large, struggling companies and a number of small firms with uncertain prospects. An exception from this bleak outlook is the strength in medical technology, where GE and other companies run successful operations in Sweden.

One reason for the success of the Danish life science industry is the ownership structure. With foundations controlling most of the firms, these have remained independent. As control of the Swedish companies emigrated to other countries, some of the most competent people left the industry. Large sums of public capital were invested in life sciences – partly in the hope of founding a biotech cluster in Stockholm – but the funds were allocated with the implicit understanding that jobs and not necessarily flourishing businesses were to be created.

Management may also have been a factor in the sense that Swedish managers failed to adapt to the structural changes. When the large and medium-sized Swedish companies were acquired or shifted their operations abroad, a number of experienced executives became redundant. But very few of them chose to take up work in start-ups. This was in marked contrast to developments in Denmark. A survey reported by the business weekly Affärsvärlden shows that in 1997-2004, 69 percent of the founders of Swedish research firms came from universities. The corresponding figure in Denmark was much lower, 38 percent. 26 percent of the Danish managers in newly-launched firms had a background in major life science businesses. In Sweden, only 8 percent joined from established companies.

What this means in a management context is that the Swedish start-ups generally lacked staff with wide-ranging business experience from big companies. This has probably contributed to the worrying trend in the sector.

11 A managerial renaissance

In the past 15 years, the Swedish economy has come back. Macroeconomic development has been strong, with above-average GDP growth and solid public finances. The pension system has been reformed, competition and antitrust laws have been strengthened and zoning laws have been revamped to give more room for establishing new retail businesses. I addition, deregulation of the energy, telecommunication, transportation and temporary staffing sectors have paid off handsomely. In 2009, national debt will be less than 30 percent of GDP compared with over 70 percent in the late 1990s. Productivity has been world class at some six percent per year in the ten years up to 2004. The rate has slowed in recent years, although this is to a considerable extent due to positive factors related to a better functioning labor market.

In 2006-2008, unemployment fell rapidly, with a large proportion of the new entrants into the job market being young people and persons born in other countries. These categories had accounted for an exceedingly high proportion of the jobless. The fact that they are now finding employment must be viewed, overall, as a good sign (although it affects the productivity rate negatively). The country has also recouped lost ground in relation to other countries when it comes to wealth. In 1998, Sweden's GDP per capita was 104 percent of the OECD average. This was down from a high 115 percent in 1980. In 2004, the ratio was up again at 112 percent.

Improved macroeconomic developments have been accompanied by stronger performance in the corporate sector. The picture is, as should be expected, mixed. Some industries have shown strong growth in sales and value added while others have stagnated or lost ground. On the negative side, Sweden's life sciences industry is much weaker than in the 1980s. On the other hand, the retail industry has done surprisingly well. Historically, Swedish retailers – with the obvious exceptions of H&M and Ikea - have been characterized by low productivity and slow growth. They have generally failed to attract dynamic leaders and innovative entrepreneurs. Today, the picture is much different. In fact, Swedish retail companies have higher sales per employee than those of countries such as Denmark, Germany and the United States. In 2005, Swedish retail sales per employee were twice as high as sales in the British retail sector. In the past few years, firms such as Odd Molly, Wesc and Björn Borg have seized significant markets. In March 2008, H&M showed its confidence in one of these companies, Cheap Monday, by buying the firm (its first major acquisition since 1980).

The specialized retail sector lift-off is highly significant. The reason is that these companies leverage some strengths which have previously rarely been associated with Swedish business. The use of innovative design is unsurprising, considering that the country has a long tradition in modern architecture and furniture design. But retailers in fashion-related segments also depend on work flow efficiency and time to market. These factors have certainly been evident in some corporate sectors in Sweden, but then mainly in manufacturing where capital intensive processes dictate speed. This time, however, such techniques are employed in Swedish service related businesses. The trading and supply chain competence that managers display in such an environment mean that they are breaking new ground.

In a related development, 2008 was the year of the privatization of the country's most successful venture ever in the food and beverage sector. Vin & Sprit, producers of one of the world's strongest spirits brands, Absolut Vodka, was founded as a government-owned enterprise. Innovative packaging and advertising campaigns had built the brand over a number of years. The company was put up for sale in late 2007, a time of major uncertainty in the financial sector worldwide. It nevertheless attracted sizeable bids. The successful bidder, Pernod Ricard, paid a staggering 55 billion SEK for the company. Pernod Ricard pledged to maintain the product development, design and marketing operations at Vin & Sprit's Stockholm headquarters.

Information and communication technology has been a mainstay of Swedish business life for decades. After a sharp downturn following the bursting of the high-tech bubble on the equity markets in 2001-2003, the sector has bounced back. Ericsson is the world's leading telecom systems and services group. The Nordic telecommunications cluster has an eight percent share of global exports in this sector, almost double the 4.3 percent share in all exports. But there is also a little-known but very sophisticated cluster of financial services IT systems suppliers. Companies such as Cinnober, Orc Software, Neonet and Sungard Front Arena indicate that Swedish businesses do well in this demanding environment.

The financial sector in general is another Swedish success story. The banks are some of the world's most efficient. In the period 1990-2003, productivity was 4.6 percent annually, compared with 3.4 percent in the U.S. and 2.8 percent in Britain. The four major Swedish banking groups, Nordea, Swedbank, SEB and Handelsbanken, dominate the Nordic and Baltic scene. But there is more to it than that. Stockholm is also the private equity center of

Northern Europe. The three leading firms of EQT, Industri Kapital and Nordic Capital employ hundreds of thousands of people in their portfolio companies. In a highly competitive field, these firms have managed to win auctions throughout Europe and raise funds worldwide at an exceptional rate. Fund management is a third area of expertise. Most of this business is conducted by the major banks' wealth management subsidiaries, but there also several successful boutique management firms. East Capital pioneered investment in Eastern Europe and is the world's number two in this area. There are also several Stockholm-based hedge fund operators who manage capital on behalf of investors in a number of countries.

According to McKinsey & Company, the automotive industry is probably the most advanced of all business sectors globally. This industry extends from raw material and component sourcing to marketing and after sales, while at the same placing heavy demands on cost-efficiency and on making the right decisions in terms of design, brand and plant investments for the long term. Its global reach and capital intensity means inefficient producers are constantly exposed to competition. Margins are generally low, which adds to the challenges of managing of such companies. It is no coincidence that most management innovations have originated in the automotive industry. Product differentiation, global sourcing and just-in-time manufacturing were all introduced by car and truck companies.

This makes Sweden's success in this sector impressive. During the past 10 to 15 years, annual productivity improvements have averaged eight percent in Sweden. Japan, home of Toyota, the world's most admired manufacturer, had a rate of five percent. As far as Toyota is concerned, it is interesting to note that the group's only major industrial overseas acquisition in recent years was that of Sweden's BT Industries in 2000. BT Industries is one of the world's leading makers of fork-lift trucks. It is now slowly being integrated into Toyota's material handling division. Heavy trucks – represented by Volvo and Scania - is the star segment of the Swedish automotive industry.

Another example is Scania. For decades, the company has concentrated its attention on product development, an efficient manufacturing process and customer delivery. It has stayed out from the competitive North American market and it has refused to diversify from its core business of heavy trucks. All trucks are built to order at two ultra-efficient main plants in Södertälje, Sweden, and Sao Paulo, Brazil, and several component factories. It integrates backward through its big supplier support department, staffed with some of Scania's most experienced factory managers. This department cooperates closely with suppliers, assisting them in introducing the latest technologies and work practices – a clear win-win strategy pioneered in Europe by Scania. It also integrates forward, toward the customer. This is carried out by extensive financing, distribution, maintenance and fleet management operations. Services account for 25 percent of sales and this share is growing rapidly.

Commercial equipment and specialized components, such as safety systems, are also performing well. The outlook for cars is more challenging, although Volvo Car and Saab have held their ground better than many other manufacturers.

12 Do well-managed firms just happen to be Swedish?

In the previous section, we have noted that the Swedish economy has made a striking recovery. We have also seen that there are a number of business – and thus managerial – success stories which are relevant to the discussion on Swedish management. Before we address this issue further we need to answer one question. These success stories are relevant. But how relevant? Are these companies successful because they are Swedish? Or do they just happen to be Swedish? The case histories listed above are anecdotal and it is difficult to prove that managing the Swedish way brings tangible benefits from a competitive point of view.

One survey provides some insights into this, though. The World Economic Forum's Global Competitiveness Index ranks nations according to a number of factors (such as education, infrastructure, economic stability, and so on). Most refer to macro economic indicators and are of little relevance in a corporate management environment. But there is some data which offer rewarding insights into how well Swedish businesses are run. One of the most significant rankings is the one for business sophistication. Sweden comes in fourth place out of a total of 131 countries. The innovation ranking is equally important. Here, Sweden is number six. The country does even better, as the world's number one, in the category of technological readiness.

If one breaks down the data, the results are impressive. Sweden is among the top five nations in nine of the 12 areas which have a bearing on management in the corporate sector. They are: availability of latest technologies, firm-level technology absorption, local supplier quality, nature of competitive advantage, value chain breadth, production process sophistication, willingness to delegate authority, capacity for innovation and company spending on research and development. The three areas where Sweden is not among the top five is in local supplier quantity, state of cluster development and extent of marketing.

An obvious conclusion from the World Economic Forum ranking is that the quality of Swedish companies is high. This does not, in itself, provide proof that managers do a better job here than their peers in other countries. The high score in World Economic Forum tables might be due factors that have little to do with the quality of management. Could it, for example, be that Sweden's large public sector crowds out many businesses which would be viable in other nations? If this is so, only the very strongest companies would survive in such an environment. But this argument cuts both ways. Steep tax rates are indeed a hurdle which is difficult to overcome, although the fact so many firms succeed despite the odds may also prove that the Swedish management culture produces superior results. Entrepreneurship is weaker than the European average. But this is to a considerable extent offset by rapid expansion in the companies that are actually launched. “Sweden has a relatively low number of entrepreneurs but among them many with high growth expectations”, notes the Nordic Globalization Monitor, a 2008 report to the Nordic Council.

13 Which management style is most fit for a global age?

Few people have such wide-ranging perspectives on current management trends as Mukul Pandya, executive director of Knowledge@Wharton, the world’s premier online leadership journal. It is published by the Wharton School of the University of Pennsylvania, and has a readership of 1.3 million. 700,000 subscribe to the U.S. edition and the remaining 400,000 read the Chinese, Indian and Portuguese versions.

Pandyas insights are important when we try to judge if managing the Swedish way is a good model. This is because, by analyzing click-through habits of readers, the Knowledge@Wharton staff can easily determine which areas interest the readers most.

> *“There are two or three evergreen topics that never go out of fashion. Leadership is one. Everybody wants to know how to be a more successful manger”,*

says Mukul Pandya.

> *“The second topic is operational efficiency. Companies and individuals feel the need to become more productive to cope with competition. The third area would be how to balance demands of work and family. This seems to be a universal issue. Every time we carry something on this, it always becomes one of the most read stories.”*

With this in mind, is the Swedish management style useful in global age? Mukul Pandya says he is not a specialist in this area. His overall opinion is, however, that more and more companies implement flatter organizations. “The collegiate style is more in up-to-date than the old-fashioned hierarchies. Managers increasingly find that they need to engage their employees”.

These comments illustrate that, while there are few signs that national management cultures are converging fast, the trend certainly appears to go in that direction. One instance is the sharp increase in trade, cross-border investment and business concepts where national borders and even time zones become irrelevant. Companies must strive for a similar type of behaviour. This is a natural consequence of globalization, notes Robert Salomon of Stern School of Business at New York University. “A U.S. firm that is a strong global producer with a large footprint simply has to behave and follow certain rules."

There is one observation that contradicts this. Some companies may pay lip service to collaboration and are actually reinforcing their hierarchies by setting very detailed performance targets and following them up rigorously. These firms are, however, in all likelihood a minority.

The dominant trend may be described as "more collaborative", "more change-oriented" or both. The new thinking is evident when it comes to choosing or promoting leaders. In these decisions, nationality or industry experience are rarely the main considerations any more. The desire for a fresh perspective or a global approach may be more important. In 2000, it came as a surprise when Nissan Motor picked a Frenchman, Carlos Ghosn, as CEO of the Japanese automaker in 2000. Nowadays, such appointments are much more common. The reaction was muted when Ford recruited the chief executive of Boeing, Alan Mulally, who had no car industry experience at all, to take over the troubled group.

The multinational company's need to hire foreign staff applies to all levels. Paul Stone of Bain & Company points out that leading global firms employ thousands of non-nationals. They must lead these people efficiently, while at the same intimately understand the markets, customer environments and cultures they operate in.

> *"So, logically, they need to become less national, more multinational and global",*

he says.

One important issue in this context is how Swedish executives will perform in an environment which increasingly is not a Swedish one, that is in foreign-owned companies. Some Swedes rise to the top in global corporations. They include Jerker Johansson, head of investment banking at the Swiss bank UBS, and Bo Andersson, manager of global purchasing of General Motors. Are Swedes under-represented in the management of such companies? Or are they not? The interviewees voice no strong opinions on the matter. Here, further research is needed.

Judging from the World Economic Forum and other data, Sweden seems to be coping well with globalization. There are, as we have seen, a number of cases where managing the Swedish way yields good results. This does not guarantee its success in the future. The majority opinion among the people interviewed for this report believed, however, that the style embodied in Swedish management has many of the attributes that are associated with the most advanced forms of leadership. This becomes evident if we try to forecast which kinds of managerial challenges are like to dominate in the near future. We will then see if the Swedish way of managing will be up to scratch. Let us return to the top areas favored on a continuous basis by Knowledge@Wharton subscribers:

- Leadership in general
- Operational efficiency
- Work-life balance

It seems highly relevant to describe the future managerial challenges in most countries in the above terms. In other words, we can make the assumption that this set of leadership skills will be the most sought-after in the coming years. Are these skills well represented in Sweden? Does the Swedish management style address the challenges of general management, operational efficiency and work-life balance?

The majority of the people interviewed for this book say yes. It appears to be the case that Swedish management is modern, efficient and people-friendly. We arrive at this conclusion by identifying three strengths – which have been identified in interviews - of the Swedish style. They are:

- “Big picture” preference and high level of delegation
- Change and action-oriented
- Inclusive and non-confrontational

The match with the Knowledge@Wharton list is obvious. Swedish senior managers tend to focus on the big picture goals, on setting direction and aligning support. They leave details and execution to teams. There are negative aspects to this. The big picture preference of a Swedish manager, who leaves details to subordinates, may be a recipe for failure if the team does not monitor quality on a continuous basis. Employees in some countries may also find it more difficult to cope with tasks delegated to them than elsewhere. Martha Maznevski observes that some Swedish executives react in an arrogant way to such reactions. She quotes one of them as saying: “It is really frustrating - our employees refuse to be empowered”.

The instinctive non-confrontational style of Swedish managers means they have to learn to communicate more clearly outside of their home culture. But it should be remembered that Swedish managers have decades of experience in working with foreign staffs and partners, and in such contacts they tend to be more direct and clear than when they are in touch with fellow Swedes. Niklas Prager, head of the U.S. drug group Pfizer’s operation in Sweden, told a seminar in 2008 that he alternates constantly between these communication styles.

> *"I delegate a lot and operate in a very informal way in our local organization. The focus is on involving people. When I am in touch with headquarters I will come across as a much more decisive manager. You have to play those two roles, and I don't see any problems with it."*

The interviewees agree that Swedish executives can move their organizations at very high speed once the framework has been set. They also note that a Swedish manager delegates a lot. His or her extent of delegation may be regarded as extreme in cultures where it is taken for granted that the boss instructs and directs. But it works.

The conclusion in this book will be that the strengths of the Swedish leadership style outweigh the weaknesses. The answer to the question which heads this section is: yes, this management culture is indeed one of the best in a global age. This is so because a flat corporate structure is a logical and cost-efficient way to operate, innovate and recruit on the competitive markets of today and tomorrow. Firms must also to an increasing extent cultivate their brands by respecting other cultures and be responsible corporate citizens. They need to pay attention to the fact that the education levels of their prospective employees is rising (meaning they can accept more delegation and responsibility) and that services become more important than manufacturing (which implies more need for communication skills within and outside the company).

Most successful companies are well aware of these trends. They therefore seek to shift the balance in their organizations away from control toward trusting their employees more. The rationale is – as we have touched upon earlier - that this will make it easier to attract and retain highly talented people. This will, in turn, strengthen the companies' capacity for innovation and their ability to prosper in a rapidly changing business climate. The interviewees all say most global firms recognize the value of a committed, high-quality work force.

Many companies are also making high employee commitment an explicit goal. This indicator can be measured in a detailed way in employee and customer surveys. The Swedish image as a caring, environmentally conscious society is also a positive one for many companies. One example is H&M in China. The company's representatives have given well-received presentations at Swedish embassy seminars on corporate social responsibility and the environment. The Swedish “nation brand” is perceived to be strong. According to the Anholt Nation Brand Index, Sweden and Switzerland are the only countries with a population of less than 20 million which made the top ten in the index. In 2007, Sweden was ranked as the ninth most attractive nation brand.

When it comes to operational efficiency, we may note that American firms started to outsource huge parts of their operations more than a decade ago. This was partly for the purpose of purchasing more cheaply. Another important benefit – which has often been overlooked – was that buying rather than producing enabled them to scale down their staff functions. This reduced the complexity of the business.

But this trend has its limitations. To ensure large-scale results, you also have to reduce complexity *within* the organization. Swedish businesses are described by management consultants as among the very best in decentralizing management. One example is the fast-growing cosmetics firm Oriflame. Its chief executive and head of human resources work from Stockholm, which is also the center of catalogue production. Other head office functions are located abroad. Finance resides in Switzerland, IT is run from Prague, logistics are controlled from Warsaw and the research and development activities are managed from Dublin.

In some businesses there will always be a need for hierarchies and centralized control and monitoring systems. International finance is such an example. In that industry, compliance and risk control functions require a certain amount of command and control.

The Swedish managerial style differs markedly from those in many other parts of the world. All interviewees agreed, for example, that American and Asian managers preferred to have a clear structure and hierarchy in their organizations. This is less likely to be found in Swedish companies. But the interviewees also said that the trend in the U.S. and Asia is moving toward more collaboration and less hierarchy. As far as the Asian region is concerned, there is actually – something which is rarely noticed - a lot of common ground between the Swedish management tradition and the cultural and organizational preferences in that part of the world. One area is the team approach, which is overall more favored in Asian societies than in the United States. There is also a strong meritocratic tradition, dating back to Confucian times. This links directly to the Swedish management style where a leader will only inspire confidence and gain respect through his or her competence. This suggests that in the coming years, managing the Swedish way will probably be regarded as very good practice.

14 Sweden may inspire, but not gain

There are many examples of once-dominant management cultures which abruptly lost their appeal. Japanese firms were regarded as the world's best in the 1980s while the 1990s belonged to the U.S. technology and services companies. With the benefit of hindsight, we may now see that the picture is more complicated. We should seek to neither exaggerate nor undervalue the competitiveness of national economies and of their management cultures.

Managing the Swedish way is an attractive way of running businesses. Over the coming years, it will probably be copied and benchmarked against in much the same way as American and Chinese companies try to learn quality from the Japanese or as European businesses try to master cost control by studying U.S. experiences. This development is already evident in the number of Chinese delegations visiting Swedish companies and municipalities to learn more about how to organize work.

But trends change quickly. Sweden's success is partly because it is harvesting the fruits of half a century of organizational thinking and leadership. The investments in education and research and the visionary development programs during the golden era of the 1950s, 1960s and 1970s paid off handsomely. Since then, however, very little has happened. We have seen a renaissance of Swedish management and businesses and the national economy has boomed over the past ten years. These advances have not been accompanied by a renewed focus on Swedish management in academic institutions, in business and government think-tanks or in consulting firms.

It is quite likely that the methods that have served Swedish companies well will, in due course, be copied by businesses in many countries. This means Sweden may inspire the world in terms of management. But it also means it will not necessarily gain very much from it.

Unless, that is, something is done to re-energize the discussion on how management and work organization should look like in the future. If academia, research institutions and businesses themselves refocused their attention on this area – and reinvested in it - the dividends could be substantial in terms of new and better jobs and more innovative companies in Sweden and elsewhere. The institutional set-up from the 1960s, with employer/union-sponsored research and training establishments, functioned well. Today, a different approach is probably needed. It should probably more take into account the role of the entrepreneur, the expansion of professional services, the growth of global businesses and the need for people-friendly workplaces. If this were to happen, Swedish management would continue to inspire. It would also draw some gain from helping to build leading companies in a global age.

Research and methodology

This project was launched shortly after the presentation in late 2007 of a questionnaire study commissioned by VINNOVA ("Is Swedish management competitive?" – Är svenskt management konkurrenskraftigt?). The study was based on interviews with Swedish executives and other leaders. It indicated that the Swedish management culture was competitive – and thus an asset to the national economy - but that further research was needed. This book is intended to help fill that gap by adding some additional perspectives. One such perspective is the historical one, namely to outline how the Swedish management tradition evolved during the previous century. Here, I have relied heavily on various academic publications which are listed in the literature section at the end. I have also benefited greatly from a seminar hosted by VINNOVA in June 2008 where management scholars from the Stockholm School of Economics, the Karolinska Institute, Mälardalen University College, the trade union Unionen as well as VINNOVA staff made valuable contributions.

Another perspective is that of the foreign research community. For that purpose I have interviewed management researchers in the United States and Europe. They were selected because of their specializations in Swedish or Scandinavian management or in international organizational cultures.

The third perspective is how expatriate managers and senior management consultants view the Swedish management style. The interviewees were chosen because of their commitment and insights into the topic (for management consultants) or for their roles as managers in leading Swedish companies (in the case of managers in China).

Some academic research has been carried out in this field previously, mainly in the form of interviews with executives in Swedish companies and comparative studies with other nationals. But the approach in this book is, as far as I can tell, a new one. The structure and content was chosen, apart from the historical perspective, as a result of the interviews. Case studies were added to illustrate the findings in the interviews. Interview agendas were standardized, although a few exceptions were made, for example when the interviewee had limited knowledge of Swedish businesses. Most quotes are from the interviews. Whenever somebody is quoted from a lecture or from literature, this is clearly indicated. One clarification: the topic is analyzed broadly, that is, it applies to both senior management and middle management.

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Production: VINNOVA´s Communication Division
Cover picture: Anders Gunér
Printed by: Arkitektkopia AB, Stockholm, www.arkitektkopia.se
July 2008
Sold by: Fritzes Offentliga Publikationer, www.fritzes.se

VINNOVA´s mission is to promote sustainable growth
by funding needs-driven research
and developing effective innovation systems

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