

Part 1

History lives

NORDIC MANAGEMENT: FROM FUNCTIONAL SOCIALISM TO SHAREHOLDER VALUE?

1.

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The standard version of management history presents a narrative of the accumulation of rational knowledge that supposedly reflects universal development patterns in western societies. The history of management in the Nordic countries does not fit into such a narrative. The Nordic model of management and democracy, which existed primarily between 1945 and 1990, was an attempt to combine economic growth with democratic stability: a program for increased equality and extensive democratization of society.¹ In this corporatist program, management was an act of compromise, of finding the best solution to conflicts between workers and employers.

As noted in a 1955 Norwegian manuscript that introduced its readers to US management, the word “organization” has often been used in the Nordic countries to refer to unions and political organizations, whereas the same word in the USA refers to the firm or the enterprise.² Similarly, the enterprise, or “the organization” as it has been depicted in organization theory and business history, has not been the prototypical model for organizing Nordic affairs. In the wake of John Meyer’s work in the 1990s on the relationship between type of politics and organizational traditions in the world culture, Nordic organizational researchers have refocused attention on this contrast between Nordic and Anglo-Saxon societies.³ The major units, the central points of identification for the people of Norden during the epoch of the Nordic model, were primarily voluntary associations, unions, local governments, and political parties. The Nordic solidarity pattern was based on a

¹ The exact period of the existence of the model is not the issue here – the important point, rather, is that the idea ceased to exist sometime between 1978 and 1990, and that it had its beginnings in the first half of the 20th century.

² Utnes, 1955:2.

³ Meyer & Jepperson, 1991; Meyer, 1994; Røvik, 1998; Brunsson & Sahlin-Andersson, 2000.

close identification with national centralized organizations of a collegial, constitutional type, and with a high degree of “functional deference”.⁴ Such organizations have played a significant role in social and political life, and they have, along with other collective actors such as “the people” and “the nation”, been central points of identification.

To a certain extent, this solidarity pattern may be in contrast with more individualistic identifications, and the privileged position devoted to firms and top managers in the historical Anglo-Saxon self-portraits. It is this latter version of history that is reflected in business history and the discipline of business administration. It may be maintained, however, that the Nordic industrial elite was considered to be the “junior partner” in its relations with the state – not the other way around, as exemplified in Chandler’s account of the rise of corporate management as “the visible hand”.⁵ Nonetheless, in the imported version of organization theory, it was often the firm rather than the Nordic organizational prototype that was taken as the implicit point of departure. This tendency was challenged by what has been referred to as the “Scandinavization of organization theory” – only partially challenged, however, as this was also an attempt to create a universal organization theory. There was also a tendency in Scandinavia to overlook the possibility that “the researchers themselves may be influenced both by the culture and by existing practice” and it was suggested instead to aim for a culture-sensitive “set of organization theories, which can be compared, exchanged and borrowed from”.⁶ One step in this direction is to develop a more systematic account of how management relates to societies historically. In the following pages I argue that the Nordic social democratic version of history presents a different view of management – *constitutional management* – in contrast to what I call the *paternalistic* and *professional* models of management that was more influential in Continental Europe and in the Anglo-Saxon countries. I will take my departure from the situation that existed more than fifty years ago, when the major concepts of management and democracy that are now challenged by neo-liberalism and the shareholder value movement were about to be constructed. All these constructions, which I exemplify by referring to the Nordic, Continental, and Anglo-Saxon models of management, were linked to a particular phase of modernity – a phase referred to by sociologists and business historians as “organized capitalism”. It is argued that these traditional models have been in a phase of transformation since the 1980s, due to the rise of global markets, the shareholder value movement, and the disorganization of national models.⁷

⁴ Eckstein, 1966:147; Olson, 1990.

⁵ Chandler, 1977.

⁶ Czarniawska & Wolff, 1986: 281, 282.

⁷ Lash & Urry, 1985.

The return of the businessperson as hero

The status of the firm and of businesspeople in society has been a highly contested issue in the western world during the twentieth century, and this contest has been downplayed in many of the recent articles and books that pay uncritical tribute to corporate managers as heroes of the twentieth century.⁸ Eric Hobsbawm, on the other hand, does not revere managers, but focuses more on politics and conflicts, due to his insistence that the last century was an age of ideological extremes rather than an age of management.⁹ Would it not be strange if the struggles among the various social and political models that characterized this age did not also affect our view of the role played by the firm and its managers in these societies? During the 1990s and early 2000s, there was a notable change among management scholars and in the news media toward a heroic view of corporate managers. If it were not for the recent scandals in management associated with companies such as Enron, one would have to conclude that managers were beginning to replace the national political leaders as major players in history books. Such a view of history has already been articulated for many years in business schools, a narrative of the rise of industrial management and the gradual accumulation of management knowledge from Frederick Taylor to Jorma Ollila and John Chambers, from Bethlehem Steel to Nokia and Cisco. Yet the sudden popularity of the idea of global markets and of corporate managers as agents of shareholders and investors around the latter decades of the twentieth century was rather surprising. This outcome ran contrary to the predictions of intellectuals and politicians of the mid-1900s, when the common interpretation was that the epoch of economic man and proprietary capitalism had come to an end.¹⁰ It was presented as a task of utmost necessity for industrial leaders and politicians to develop alternatives to utilitarianism as a principle of legitimation. The idea of the professional manager as a trustee for the stakeholder and the community at large was then constructed as the solution to the ideological vacuum created by the disappearance of property rights and free markets as major principles of legitimation.

The construction of management

Peter Drucker was among the first scholars to see the significance of the large firm as a challenge to capitalism. The modern corporation is and has been an

⁸ See e.g., Fagerfjäll, 1999.

⁹ Hobsbawm, 1995.

¹⁰ See e.g., Drucker, 1939/1995; Schumpeter, 1942/1962. There is, of course, an even more powerful story about the discovery of the laws of economics, but this will be omitted, as this is a chapter about Nordic management.

important political institution, he said, particularly because it represents a countervailing power to the state. The sheer size of industrial corporations and the power exercised by their managers was a problem that had not been accurately addressed. It was no longer possible to justify the power of managers by Lockean contract theory and the bourgeois celebration of property rights. As Drucker said: “In the modern corporation the decisive power, that of the managers, is derived from no one but from the managers themselves, controlled by nobody and nothing and responsible to no one. Managerial power today is illegitimate power ... It is in no way based upon a fundamental principle accepted by society as a legitimate basis of power”. What constituted “legitimacy” to Drucker was a question that could be answered only in terms of a given society and its given political beliefs.¹¹ These were no universal formulae to help managers create their legitimacy; each social setting required its own justification. Management is mainly a political and cultural practice that cannot be grasped from only one disciplinary viewpoint, be that viewpoint economics or organization theory.

Although oriented more toward a prediction of a gradual convergence, Joseph Schumpeter presented a similar argument about management. Entrepreneurs had played a critical role at an early stage of capitalism, but their influence would only continue to decline with the rise of large industrial corporations. Capitalism was becoming more and more efficient as these corporations gained ascendancy, and it was inevitable that capitalism would undermine its own legitimacy base, as Marx had also predicted. The downfall of capitalism did not lie in the mechanism of class struggle and exploitation, however, but in the decline of private property and the waning of a culture of independent property owners. There would be no major group left to defend capitalism against the labor movements and the intellectuals – allies in the struggle for socialism.¹²

The Schumpeter view of management was a major inspiration behind a large-scale international research project funded by the Ford Foundation, in which the critical question addressed the type of management needed for the inevitable development trend toward an industrial society. The most notable of these studies was *Industrialism and Industrial Man* (1960), authored by the four project leaders¹³ who maintained that the character of the industrialization process depended on the various industrial elites that took the lead in “the march toward the new society”. Five ideal types of elites and development

¹¹ Drucker, 1942/1956: 64, 75, 34.

¹² Schumpeter, 1942/1995; Henrekson & Jakobsson, 2001.

¹³ The four labor economists in charge were Clark Kerr, John T. Dunlop, Frederick H. Harbison, and Charles Myers. Researchers from 11 countries had studied more than 35 countries, with contributions across a wide range of disciplines. There were 12 books and 20 articles published in 1960, with another 14 books and many articles on the way (Kerr et al. 1960:299; Kaufman 1993:94).

patterns were delineated: dynastic, middle class, revolutionary intellectual, colonial, and nationalist. The impact of the preindustrial society, then, was basically accounted for by making assumptions about the manner in which elites affect the industrialization process. Each of these elite groups had a strategy by which they sought to order the surrounding society in a consistent and compatible fashion.¹⁴ It was also assumed that the “character of protest movements was largely determined by the orientation, status, objectives, and practices of the elite toward which the protest was directed”.¹⁵

The “industrial man” theorists differ from the business historians and the organization theorists, in that they took a much broader view of the function of management in society. It was taken as a given, however, that “the general direction of management development in all advancing industrial societies is the same” (Kerr et. al., 1960:121). The major force for development was scientific discovery, technological innovation, and the economic progress that followed when science was transformed into practice. As industrialism advanced, the old patrimonial and political managers were swept aside by these new science-based professionals. The new system of industrial relations and the associated Human Relations discipline that developed in the USA provided a universal model for resolving the relationship between managers and the managed. Large scale, mass-producing enterprises were the major units of industrial society. Management was to have a guiding role, but within a corporatist order in which the industrial and occupational associations would be a permanent check on managerial power:

as a consequence, dictatorial or paternalistic direction gives way to a kind of constitutional management in which the rules of employment are based upon laws, decisions of governments, collective contracts, or agreements (Kerr et al., 1960/1996).

I will now discuss the differences between the management concepts and models that were constructed in the USA, Continental Europe, and the Nordic Countries, and place the views and cases presented in the literature in a historical and cultural context. I need ideal types in order to compare these literatures and cases. These ideal types are categories derived from observation of practice, and not necessarily accurate reflections of such practices. Rather they are cognitive models that bring the observed logics to an extreme in order to make it possible to compare the logics of organizing and acting in different sectors or cultures. It is not possible to find practices that make a perfect fit with such ideal types, as such practices commonly represent mixtures or hybrids.

¹⁴ Kerr et al., 1960:49–50.

¹⁵ Harbison & Burgess, 1954:20.

Ideal types of management

Management relates to the kind of politics and authority structures that have been developed historically, i.e. statist or corporatist from above on the European continent and more individualistic in the United States.¹⁶ The Nordic politics were also of the corporatist kind, but with a stronger emphasis on mobilization from below.¹⁷

Paternalistic management

Paternalistic management refers to the structure that was developed around the entrepreneur or a patron in a large or middle-sized firm, but also, historically, to the top civil servants in the state. Seen from a Nordic perspective, it could be argued that the German and French each developed their variation of paternalism. The French idea of management was more generalist than either the Nordic or the German notion and its system for elite recruitment was more meritocratic. Unions and crafts were stronger in Germany, and the management system had to develop ideas and structures that could integrate or co-opt the workers in the firm. The craft model of the firm was more influential than it was in France, and managers were trusted because they knew their craft or discipline. Management was tacit knowledge, for it could only be derived from other types of social functions and transferred and cultivated in closed groups.

Professional management

Professional management is based on the idea that it is possible to learn how to manage, either through experiences acquired in a career or by reading and discussing management texts in business schools or courses. The concept is linked to a particular kind of middle-class ideology centered on individualism and uplift, and a pragmatic and universal view of knowledge. Managers are the carriers, not of functional competencies but of knowledge about the ways to combine the various functional competencies needed to achieve particular goals.

Constitutional management

This third type of management – constitutional management – is based on the idea of managers as representatives of a community of associations, an ideal that places a strong demand on managers to seek compromise among con-

¹⁶ Meyer, 1994.

¹⁷ Stråth, 1996.

flicting interests. Management knowledge is also tacit in this model. It is cultivated in more open settings, such as associations and parties, but there is a strong tendency to downplay and mystify the role of leadership knowledge. Interest representation and the ability to arrive at compromises to improve conditions for stakeholders is a particular kind of highly valued competence. Constitutional management is often a response to and an attempt to “civilize” or control democratic movements, and must therefore coexist with democratic-participative modes of management.

The Nordic nation states were late developers in the field of management, and there was a great deal of imitation in the development of management as a professional role. One possible role that Nordic managers could take before the Second World War was a variation upon a German theme: the owner-entrepreneur (*Der Unternehmer*). Another possible professional model developed in the USA was the *General Manager*.

Contrasting normative literature with historical descriptions, I will demonstrate that management in the Nordic countries, particularly Denmark, comes closer to a mixture of the craft and constitutional ideal type, and that the general manager emerged as a more important point of reference than did the owner-entrepreneur. Functional deference and the call to stay in one’s vocation were important principles of organization and motivation in the Nordic countries as well, but the values of ownership and elitism were less important than in Germany.

The US model: Professional management

The US political tradition was founded in opposition to British supremacy and the Conservative tradition of the old European regimes. It is partly for this reason that no strong conservative or socialist tradition has ever been established in the USA.¹⁸ Political parties in the USA during industrialization had, like the Nordic Social Democrats after 1935, an ambition to absorb the peasantry and the workers into the same movement. The labor movement in the USA did not attempt to eliminate free enterprise or to develop a society according to the credo of equality of results, however; instead it sought meritocracy within capitalism: “Far from inheriting the earth, all he [the American progressive] wanted to do was to smash trusts and begin running the Lockean race all over again.”¹⁹

The last decades of the 19th century in the United States is commonly referred to as the gilded age or the age of the Robber Barons, due to the great

¹⁸ Hartz, 1953; Lipset & Marks, 2000.

¹⁹ Hartz, 1953:223.

increase in economic inequality that characterized the period. This change arguably led to a crisis of confidence among those who believed that the US experience was exceptional. The consequence was the advent of scientism and professionalism, as these ideologies were an attempt to solve the crisis. The connotation of the Anglo-Saxon term “science” is that it is possible to find an objective best way to solve a given task; it also refers to disembodied constructs such as humanity or the individual, rather than particular individuals, communities, or nation states.²⁰

After Taylor, managers in the United States were keen to legitimize their actions by arguing that they relied on science, in contrast to the traditional managers who based their legitimacy on religious values or on their personal integrity. It was particularly the engineers and the new professions that set their mark on the ideology of the *Progressive Era* (1900–1917). The progressive period provided legitimization for the roles of professionals, and later for professional managers.²¹

The Taylorists argued that the class struggles and ideological conflicts of the European type were unnecessary in USA, where science and expertise had been developed to a higher level. It was possible to establish a common ground based on a platform provided by the professional classes, and do away with the reasons for conflicts in industry and society. It is here that we see the clearest continuity with the end-of-ideology argument and the idea of industrial society in the 1960s. The concept of general management and the associated model of the multidivisional firm were constructed by innovative business practitioners such as Alfred Sloan and Chester Barnard.²² Peter Drucker, Talcott Parsons, and a group of intellectuals associated with sociology brought the well-known progressive theme of “uplift and efficiency” into the new discipline of management by arguing that it was necessary to provide business with a moral purpose distinctly different from plain commercialism: “The essence of professionalism consists in a series of limitations on the aggressive pursuit of self-interest.”²³

The German model: Disciplinary management

State paternalism was the justification for the large firms and associated corporate organizations in Germany, at least to a much greater extent than in the USA and the Nordic countries. The owner-entrepreneurs (*Unternehmer*) in

²⁰ “Democratic man likes generalizations because they save him the trouble of studying particular cases”, Tocqueville said, referring to the inhabitants of the USA (1835/1968:440).

²¹ Shenhav, 1999.

²² Barnard, 1938/1968; Sloan, 1963.

²³ Parsons, 1940:62 ; see also Drucker, 1942/1956.

Germany had an uncontested position as the “masters of the house” (Herr-im-Hause).²⁴

The social and political institutions of traditional Germany fostered the notion of an elite responsive to the presumed needs of the populace, but not directly responsible to it.²⁵ This view of leadership may be illustrated by Max Weber’s insistence that leaders should be chosen on the basis of personal qualities rather than adherence to definite programs, and that leaders should act entirely according to their own judgement during their tenure of office.

After 1947, the ideological development of the governmental party in Germany – the Christian Democrats – moved from Christian socialism to economic liberalism. There was clearly a much more positive attitude toward property rights in the German social market economy than in the Nordic social democracies. One difference between the US and German views of property rights was that Germany attached social responsibilities and duties to the control of property, even to the extent of mentioning it in the constitution. German law treats the firm as a constitutional construction for structuring a process of ongoing negotiation among different groups within the firm.²⁶ Particularly in large firms and in the post-war era, there has been recognition of labor’s role in the principle of codetermination (*Mitbestimmung*), or joint decision-making.

The German system of corporate governance has been described as a contested terrain, in contrast with the US system of one-sided management control.²⁷ People in labor movements in the Nordic countries were more skeptical of co-determination at the top. They did not want to “sit on both sides of the table”, but wanted to make use of the power given to them from above, through the social democratic governments; and from below, by movements for work reform on the shop floor. This difference between the labor movement in the Nordic countries and Germany suggests that the status of the firm in the conceptualization of social governance was more influential in the German concept of social governance, firmly entrenched in Germany.

In his comparison of German and US management in the 1950s, Heinz Hartmann claimed that *Führung* (leadership) was the core idea for understanding the role of the German version of entrepreneur: the *Unternehmer*.²⁸ *Führung* is acquired by commitment rather than learning; it demands belief rather than rational examinations; it follows values rather than technical functions. In the modern world such beliefs had to be justified by knowledge,

²⁴ Stråth, 1996:33–34.

²⁵ Struve, 1973.

²⁶ Ziegler, 2000:196.

²⁷ O’Sullivan, 2000.

²⁸ Hartmann, 1959:172. I am preserving the German expression *Führung*, which is not exactly the same as “leadership”; there is another noun, *Leitung*, which also means “leadership” but in a more managerial or administrative sense.

however, and the *Unternehmer* presented themselves as experts in such technical fields as law or purchasing rather than as management specialists. This owner-entrepreneurial tradition has continued to be an important focus in German management. Thus the division of labor places strong emphasis on leadership from the top; whereas those lower in the hierarchy ought to act in accordance with the norms of administration rather than leadership.

Hartmann found that German managers still depended to a large extent on “absolute values” such as property and on the calling and the elite ideology. By this notion Hartmann means that the German owner-entrepreneur is 1) a trustee of private property, 2) “called” to a life-long career by a divine or otherwise transcendent force, and 3) a member of a social elite with claims to elite standing over society at large.²⁹ The idea of the manager being a trustee of property relates to the Catholic influence among many managers in Germany: it is the duty of the *Unternehmer* to be loyal to the value of private property. Hartmann refers to the official pronouncements issued by the Vatican in 1891, 1949, and 1950, wherein Pope Pius XII objected specifically to labor codetermination over the property of the *Unternehmer*.³⁰ The notion of a calling was institutionalized in a comprehensive system for vocational education, and the top manager was frequently embedded in a strong vocational and technical culture. The elite ideology is found in the influential idea of *Bildung* or cultivation of personality. These three widely accepted sets of values endowed German managers with a greater “zone of indifference” among workers than US managers enjoyed, because they did not constantly have to demonstrate their abilities in the specific function of managing.³¹ The web of significance surrounding German managers may have been closer to the ideals of expertise and vocational calling, which means that they identified with a particular scientific field (*Wissenschaft*) or practical discipline (*Fach*) and also with a specific owner-entrepreneur and firm. Class identity and identification with the nation state may not have been as strong as in the Nordic countries.

The Nordic model: constitutional management

In USA, the *General Manager* was a professional middle-class person – a person competent, not in a specific functional field, but in the art of managing. In Germany, the entrepreneur relied on the institutionalization of the idea of ownership and elitism based on functional competence. But another role

²⁹ Hartmann, 1959:7.

³⁰ Hartmann, 1959:28.

³¹ Hartmann, 1959:6. The notion of a zone of indifference was launched by Chester Barnard (1938/1968:168).

model emerged as a consequence of the democratic mobilization against elites: the constitutional manager – the manager who was trusted for arriving at a position or cultivating a skill related to an agreement between particular groups in society.³² Such groups saw themselves as being in conflict, but had arrived at a “constitution” or an agreement at a given point in history.

Social democracy was one of several possible non-laissez-faire responses to the contradiction between democracy and capitalism. The Nordic response was a model of *Politics against Markets*, a system in which a regime of industrial planning and welfare redistribution kept abreast of market forces.³³ It was the Nordic vision to establish hegemony for a policy of social planning and redistribution, and thereby to initiate the process of market abandonment as the central principle of economic governance, as Schumpeter had predicted. At some point in their history, the Nordic social democratic parties all relied on the Marxist argument that capital owners exploited the working classes and that it was necessary to abolish property rights for the major capitalists and to socialize the means of production in order to develop a socialist society. This position was gradually abandoned, and the idea of “functional socialism” was launched in its place: the position that it is not necessary to nationalize private property, but that ways should be developed in which private property is rendered functional to the community at large.³⁴ It was the working people rather than the markets and the capitalists who would set the terms for the development of the future society.

The terms “the people” (*folket*), “the working people” (*arbeidsfolket*) and, in Sweden, the people’s home (*folkhemmet*), enabled the respective social democratic parties to paint themselves as representatives of a broad coalition of social groups and movements, from the farmers to the working classes and the poor, and to maintain a distinct oppositional edge against the masters and the propertied classes. Along with most models of social mobilization in the early post-war era, the Nordic “third way” depended on a strong belief in the possibility of reaching a new stage of social and human development. Civil servants and politicians in the Nordic region had not developed any strong ideological attachment to the idea of free markets; rather they wanted to use markets deliberately to foster the development of wealth and welfare.³⁵

³² It is relevant at this point to make note of the fact that top managers in all the social contexts and historical epochs discussed here were men. The emergence of the female manager, and the consequences for management cultures has been discussed by Moss Kanter (1977/1993).

³³ Esping-Andersen, 1985.

³⁴ For an elaboration of the idea of functional socialism, see Adler-Karlsson (1967); for a discussion of the shift in the way in which Swedish Social democrats understood property rights and the concept of exploitation, see Jonsson (2000); and for a contemporary discussion of the situation in Norway, see Moe (1937) and Lie (1949). It appears from these sources that the programmatic shift from a Marxist to a “functional” understanding of property rights in the social-democratic parties seem to have taken place at the party congresses in Sweden in 1944 and in Norway in 1949.

³⁵ Nilsson, 1997.

Because the industrial elites defended their property rights and other inequalities, they were seen as reactionaries rather than heroes of the social-democratic era. The major heroes were the Social Democrats and the working classes, who spearheaded the movement to civilize markets and abolish economic and the political privileges associated with property rights.³⁶

According to this notion, the struggle to cultivate markets and to develop the industrial society of the future would trigger three transformations. The first transformation had already occurred when working class and farmer alliances brought Social Democrats into government; the second was the development of the social welfare state; and the third was industrial democracy, of which the growth of public welfare reducing worker dependence on the firm was a precondition. “‘Political citizenship’ must precede ‘social citizenship’, and these are in turn indispensable for the third stage ‘economic citizenship’. Workers must be emancipated from social insecurity before they can partake effectively in economic democracy.”³⁷

In this narrative, the underlying force for change was working-class mobilization, and particularly mobilization of control over economic resources. In this view, the welfare state was not an end in itself, but a means of altering the balance of class power to the advantage of social democracy. It was mainly in periods of radicalization such as the early post-war era and the 1970s that demands for industrial democracy were placed on the agenda, but such programs ended in the 1980s and early 1990s. Since then, the center of attention has moved away from politics at work toward other issues, mainly related to the spheres of culture and welfare.

The Nordic model meets other models

The inclination among the people of Norden to borrow ideas, import technologies, and create new hybrids, has been noted by Thorstein Veblen,³⁸ who saw the northern European countries as “late developers” and as masters of adaptation. The upper-middle classes, merchants, and industrial managers in Norden were Vikings who were socialized to venture abroad and were always interested in foreign markets and models. Lindquist describes how three generations of the Wallenberg family underwent an experience of personal transformation as a consequence of their travels to the United States. Stråth argues that the foreign experiences of many central industrial leaders in Sweden influenced their political views, and partly accounted for their support of the democratic transition in Sweden between 1917 and 1920. Carlson found that

³⁶ Linderborg, 2001.

³⁷ Esping-Andersen, 1985:22.

³⁸ Veblen, 1915/1966:22 ff.

top managers in 1880 had more experience working abroad than had their equivalents in 1930 and 1988, however. Danish artisans developed their status as guild members through ceremonies and by traveling as journeymen throughout Europe learning the secrets of their profession (“Wanderer-Jahre”). Although this practice ended after World War I, it was continued in the industrial and merchant families that arranged for their sons to study and work with their business contacts abroad.³⁹ The Norwegian merchants and industrialists also had extensive foreign experience, partly due to the importance of shipping, but also because of the late development of institutions for engineering and business education. One should also remember that political leaders acquired experiences abroad as part of their early travels, work experiences, and political careers. The most influential event in the life of Martin Tranmael, the informal leader of the Norwegian Labor Party before World War II, is reported to have been his experience with the US syndicalist trade unions. US work experience influenced the political views of other central leaders of the Norwegian social democratic movement, and the influence on their organizational practices may have been even stronger.

These events occurred long before the idea of a “third way”, yet a US journalist described Sweden and Denmark in the 1930s as a “middle way” in a best selling book with this title.⁴⁰ It was after the publication of this book, partly as a consequence of the rise of the Nazi regime, and later in the climate of the Cold War, that the Nordic models of management and democracy were created as part of a continuous engagement with alternative models, serving as both positive and negative points of reference.

An inward-oriented and self-confident view of the Nordic system seems to have climaxed in the mid-1980s, before currently popular global management philosophies were well known. Those were the days when management consultants and union representatives came to Scandinavia to learn from its experience in such a wide spectrum of areas as management, user-friendly technology development, industrial democracy, group-work, welfare legislation, and industrial relations. Many observers even came to Scandinavia to study the future. Sweden and Scandinavia were perceived to be forming a vanguard in the inevitable march toward a new industrial society.⁴¹

³⁹ Lindqvist, 1995:48; Stråth, 1994; Carlson, 1986; Kristensen & Kjær, 2001; Boje, 1997: 136 ff.

⁴⁰ Childs, 1936.

⁴¹ Two futurists claimed, “for most of the 20th century social change has come first to Sweden and then swept through the rest of Scandinavia before coming to America” (Cetron & O’Toole, 1983:8). The implication was that the Scandinavian countries were seen as more receptive to social innovation than were most other countries. A similar notion of the advanced status of the Nordic countries is found in Inglehart’s many studies on the role of values in social change. Indeed, he and his coauthor argue, “it is misleading to view cultural change as “Americanization”. Industrial societies are not becoming like the United States... If any societies are at the cutting edge of cultural change, it would be the Nordic countries”. (Inglehart & Baker, 2000).

Statist individualism: implications for management

The differentiation that prevails in other countries between social security rights for manual workers, white-collar workers, and the self-employed, has been abandoned in Scandinavia to a large extent. Individualism in family relations is combined with group consciousness in the workplace and also active engagement in national and social affairs. Thus the Nordic countries are among the most collectivistic in public affairs and the most individualistic in family affairs, a situation with implications for management.

Hofstede found that Nordic managers were among the most individualistic in the world, a finding that has been difficult to reconcile with the collective solutions that are idealized in the Nordic countries.⁴² A new survey conducted by Holmberg & Åkerblom based on Hofstede's methodology may help clarify some of the confusion.⁴³ In their study, a distinction was made between the family dimension and the societal dimension of collectivism/individualism. Swedish managers were found to be among the most individualistic in their views on family affairs, but the most collectivistic in their societal perspective.

Trägård has argued that the Nordic pattern of solidarity may be viewed as "statist individualism". He thinks of the Swedish welfare state as a "gigantic deal whereby individuals have bought themselves collectively free from personal, individual responsibilities under the guise of state-run solidarity".⁴⁴ This view is reminiscent of that of US liberals who have criticized the Nordic welfare states for weakening the moral ties by relying entirely on the social welfare ties that link their citizens to the state.⁴⁵ The many predictions in the late 1980s and early 1990s about the coming collapse of the welfare state have failed to materialize, however. Currently there seems to be a positive attitude toward the architecture of the welfare state among Nordic intellectuals and politicians.⁴⁶

As indicated in studies of voting patterns, class background, cultural belonging, and political views do not overlap to the same extent as they did before the 1970s. The level of ideological conflict has declined, but the ideology has not been reduced to irrelevance, as suggested in the "end-of-ideology thesis".

Cracks in the model and repair work

The rise and the fall of the Swedish model is a theme that was featured prominently in political commentary and in the social sciences in the late 1980s and

⁴² Hofstede, 1980; 1982.

⁴³ Holmberg & Åkerblom, 1998.

⁴⁴ Trägård, 1997:262.

⁴⁵ Alan Wolfe, 1989:179.

⁴⁶ Kuhnle, 2000.

early 1990s. In one version of the story, the downfall began in 1976 when the trade unions in Sweden demanded the establishment of a *wage earner fund* in order to absorb rank-and-file criticism for wage restraint in the name of solidarity. Because this campaign for wage-earner funds, along with increased union influence over private profits, received worldwide attention, the stakes for the Swedish model were high. Its cancellation came as a consequence of an employers' offensive and a discursive shift away from the "politics-against-markets" framework of Swedish politics in the 1980s. The economic problems, the employers' withdrawal from corporate cooperation, and the subsequent electoral setback for the Social Democrats in 1991 spelled trouble for those who looked to Sweden for guidance. Unlike its predecessors, the Swedish non-socialist government that held office between 1991 and 1994 repeatedly rejected the Swedish model, provoking media people and political activists, and since the early 1990s there has been continuous reporting about and calls for necessary repair work and remodeling. The Nordic economic comeback and modernity, with emphasis on electronics, mobile phones, and the Internet, has been an inspiration for those who want to display the model to the rest of the world. The industrial relations system in particular has been seriously restructured, and it is in this domain that defenders of the Swedish model have the most difficult time arguing for its "essence" and continuity. The welfare state is still intact, however.⁴⁷

There has been a similar discussion about the fate of the Nordic model,⁴⁸ which was linked to the Swedish model, with Sweden as the teacher and the other Nordic countries as its keenest students. Because the other Nordic countries used the same rhetoric as Sweden did, they experienced a problem in 1992 when Sweden's conservative government changed its rhetoric to that of a European identity.⁴⁹ This shift created an opportunity for others to take the lead in attempts at restoring the Nordic model, however; and clearly there have been efforts from both Denmark and Norway to do so. Finland has also moved toward the center of attention as it takes a more active role in European politics in the wake of Nokia's success. Finland may now paint itself in Nordic colors – not because it needs to do so, but because it wants to. As for Sweden, however, the move toward a shareholder value orientation and the preoccupation with business managers as heroes and villains may undermine its wish to be identified with the idea of a Nordic "third way."⁵⁰ There are lim-

⁴⁷ Sandkull, 1986; Meyerson, 1991; de Geer, 1992; Mouritzen, 1995:14; Olsen, 1996; Rothstein & Bergström, 1999.

⁴⁸ Mouritzen, 1995. See also Abrahamson, 1988; Waever, 1992; Yu-An, 1996.

⁴⁹ Mouritzen, 1995.

⁵⁰ Tainio et al., 2001; Tainio, 2002. Barnevik's status changed from hero to villain in the spring of 2002, when he was criticized by the board of ABB and by the Swedish media for having accepted a generous pension scheme when leaving ABB. He relinquished some of his compensation, but clearly lost a great deal of the respect he enjoyed in the Swedish public as a consequence of the affair.

its to a global company's identification with national or regional models in its standardization of programs for management development and marketing. One wonders to what extent the return to a belief in a market society and the growth in finance markets since the 1980s will undermine the possibility of maintaining a Nordic identity.

The new belief in a market society differs from the one that was prevalent during the cold war, when there was, supposedly, a global struggle between capitalism and socialism, right and left, capitalists and workers. Does the current belief in economics and a global market society reflect the mindset that encouraged the "end-of-ideology" movement of the 1950s and 1960s? In one sense it may not, Gray has argued, as it is "deeply ideological".⁵¹ This claim is questionable, however, as contemporary protagonists of a market society appear to place greater emphasis on the kind of society they oppose (traditional society, nationalism), than what they support. The Utopia of a world market society, if it exists, is a foggy concept compared to the European Utopias of communism and national liberalism in the past century.⁵² It may be the case, rather, that the "liquidity" and uncertainty of contemporary capitalism, the simultaneous existence of a plurality of scenarios and visions, most clearly distinguish the current age from the "age of extremes" of which Hobsbawm wrote.⁵³ Is it the lack of an ideological center of present-day "market fundamentalism" and lack of an alternative hard-core program of social engineering that accounts for the current difficulties of the Nordic model and many of the "hard-wired" theories about society that were taken for granted as late as the 1970s?

The Nordic constitutional model of management, which emerged as part of a corporatist mobilization for nation building, welfare, and industrial democracy, is now challenged. The example of Scandinavian management – a movement among Nordic managers and academics in the 1980s and 1990s – may be used to illustrate the increasing impact of professional and "visionary" management models and the gradual movement away from functional socialism and constitutional management.

1980s: Scandinavian or communicative management

The "Scandinavian management" concept, which was particularly popular in the 1980s, may be seen as part of a movement toward the development of a

⁵¹ Gray, 1998.

⁵² Kumar (1987:421), in his extensive treatise of Utopias and anti-Utopias seems to agree with this notion, stating that socialism is the last Utopia. Scenario planning, which seems to be more in line with the progressive mode of thinking in the USA, has indeed become important in Norden, both in the public sector and in popular management literature.

⁵³ Bauman, 2000; Hobsbawm, 1995.

more charismatic and communicative model of leadership. Pehr Gyllenhammar of Volvo and Jan Carlzon of Scandinavian Airlines (SAS) are representatives of such leadership models.

Pehr Gyllenhammar, CEO at Volvo between 1971 and 1993, was oriented toward national and international political affairs and linked to experiments with autonomous groups at the Volvo manufacturing plants. His management philosophy came to be associated with the typical Scandinavian pattern of compromise and negotiation and with a management philosophy of the democratic-participative kind. Gyllenhammar was playing by the rules established in *Folkhemmet*, and was therefore allowed to play the role of a major public figure.

Jan Carlzon, CEO of SAS from 1980 to 1993, later became the personification of “Scandinavian management”. The success of SAS was, to a large extent, attributed to the management practices of Jan Carlzon, who was also associated with the even more influential “Service Management” trend, a management fashion with distinctive Scandinavian and Nordic roots.⁵⁴ Carlzon’s model was simultaneously customer-oriented and anti-hierarchical, a harbinger of things to come.

Volvo was placed at the core of the industrial sphere, whereas SAS was in the communication and service business. Gyllenhammar and Carlzon both emphasized the power of communication, however, and they also positioned themselves as a third option, between American capitalism and Soviet communism. They published books in English, and management gurus and representatives of the international media followed them closely.⁵⁵ It may not be accidental that the concept of “Scandinavian management” was already losing power and attraction to others – beyond the Scandinavians themselves – as the careers of these charismatic managers came to an end in 1993. The Scandinavian Management concept continued to be used primarily by management scholars interested in the relationship between culture and management, the implication being that Scandinavian managers behave more democratically due to the strong emphasis on equality and informality in the Nordic culture.⁵⁶

Communicative management is a response to the change in the conceptualization of democracy. Neither the aims nor the means of politics are any

⁵⁴ Carlzon, 1985/1989; Normann, 1984; Grönroos & Gummeson, 1985; Albrecht & Zemke, 1985.

⁵⁵ Michael Maccoby presented Swedish managers as models for managers in the United States. An interview with Gyllenhammar and an analysis of his management philosophy became one of the central chapters in Maccoby’s (1981) *The Leader*, which was one of the first books in the wave of leadership and corporate culture literature in the 1980s (Maccoby, 1981). Later, Maccoby reported that Gyllenhammar and Carlzon had become national heroes, “interviewed on television like rock stars” (Maccoby 1991:40). Gyllenhammar was voted the most popular man in Sweden 10 years in a row in the popular press (ICA-Kuriren) (Lindqvist, 1996:13; Fagerfjäll, 1999:165).

⁵⁶ Hofstede, 1982; Sjøborg, 1985; Lindkvist, 1988; Lindell, 1994; Jönsson, 1996; Schramm-Nielsen & Lawrence, 1998.

longer taken as a given, and together with increased immigration and globalization this situation leads to a greater emphasis on a pluralistic and dialogical way of understanding democracy. The focus has shifted to the organization of communication processes and the necessity of including several viewpoints in decision processes and public debates. There has been, accordingly, a decline in the power and legitimacy of political parties and the political elite relative to the economic, media, and cultural elites. The traditional industrial elite has become accustomed to operating in a political environment with a negative view of markets, and is not necessarily the group most satisfied with the new situation. The expanding business press has led to increased transparency in business affairs, by displaying internal problems of individual companies, individual managers, and conflicts among such stakeholders as unions and customers. The increased professionalism of the business media has been paralleled by an increased focus on media management in organizations.⁵⁷ The turbulent position for financial and industrial managers in the latter half of the 1990s is not only a consequence of globalization, but also a change in the rules of the game away from “inner circles” and toward “weak ties”.⁵⁸ The rise of stock markets and the business press and the associated strengthening of a public relations and consulting profession have combined to change the rules of the business game. The disappearance of the model of “industrial society”, which in the Nordic area took the shape of functional socialism, and the development of a much stronger and more self-conscious industrial elite has altered the balance between management and democracy. There is now a stronger emphasis on customer-oriented and visionary management as opposed to representative and constitutional management.

The Nordic model of welfare and industrial relations is still an important precondition to management in the Nordic countries. It is likely that new variations on old themes of corporatist bargaining and stakeholder trusteeship will be developed, as well as new variations on the theme of Scandinavian management. There are limits to the lengths to which an industrial manager can go to become a communicator of a vision – not only for the firm, but also for society. It was during the heyday of Gyllenhammar and Carlzon that Fagerfjäll (1991:97) observed that the “feudal” managers of the modern large corporations had become models to be followed even in democratic politics: “In contrast to the petrified leaders of politics and in the public sector, the leaders of the large corporations appear both analytic and honorable”. For some time it appeared as if there was one survivor of this heroic age in Swedish and Nordic management: Percy Barnevik, who was voted the European Leader of the Year when Carlzon and Gyllenhammar were still in business. Barnevik survived even the mood change in the wake of the eco-

⁵⁷ Kjær & Langer, 2000.

⁵⁸ Stenlås, 2001.

conomic problems and the departure of Gyllenhammar and Carlzon.⁵⁹ The lessons of the last decades of the 20th century was that there was a large potential for industrial managers in Sweden and Finland to become national heroes; whereas the public skepticism against such leaders seemed to be a more constant feature in Norway and Denmark. Fellman argues that the supportive milieu for individual leadership and new ideas in Finnish firms may partially explain the success of Nokia. The paternalistic tradition has been stronger in Finland than in Norway and Denmark, and economic growth has always been accorded the highest place on the agenda, in contrast to Sweden in the 1970s, where a movement for democratization of the economy and the workplace overshadowed the emphasis on economic growth for a brief moment.⁶⁰

The status of industrial managers is in constant flux, however – perhaps as a natural response to the constant infighting and organizational changes in today's business life. One reason for the increased attention to such affairs is the rapidly increasing economic gains for business people in comparison with people in politics or the public sector.

If one understands Scandinavian Management as constitutional management, as Reve does, one might criticize it as being obsolete, again as Reve does.⁶¹ In the Scandinavian tradition, he says, the firm has been an institution like any other in a national community; more specifically it has been understood as a stakeholder alliance between internal and external actors, with an equally legitimate claim on the activities of the firms. This tradition has to come to an end, he argues, because it leads to an internal focus and is overly preoccupied with fair distribution. Scandinavian management cannot work in a modern era with a more global business environment where there is a constant demand for change and active leadership. A more ownership-driven, market-oriented model of management is now required.⁶²

This cry for a reorientation of management practices in Scandinavian firms was part of a general movement in this direction among large Scandinavian companies. Percy Barnevik, the CEO in charge of the cross-border merger between ASEA and Brown Boveri, became the new role model. "Be fast" was the motto at ABB, thereby excluding management by committee.⁶³ The top managers in this global conglomerate could not build on any single regional style or philosophy, as it was feared that managers with such a regional and culture-specific orientation would not be loyal to the whole firm. There was a need for "five hundred people who have to see the whole picture". In order to

⁵⁹ It was reported that the Swedes no longer looked for charismatic leaders, but were satisfied with those who made an attempt to cope with everyday problems (Dagens Näringsliv, 1994).

⁶⁰ Fellman, 2001:201 and personal communication.

⁶¹ Reve, 1994.

⁶² Reve, 1994:572.

⁶³ Vries & Florent-Treacy, 1999:85.

be among these selected few “you need the ability to understand other people’s way of doing things”.⁶⁴ The way to create such managers was to send them on assignments abroad and follow them closely from the corporate headquarters. It was also important to include different cultures in the executive committee, which in the case of ABB, consisted of five nationalities among eight people.⁶⁵

The emerging model and its Nordic variations

The alleged crisis of the Swedish welfare state in the early 1990s did bring renewed attention to a particular feature of the Swedish model: the strength of the industrial bourgeoisie. It has been argued that Sweden was the country in the whole OECD most dominated by large corporations, and that it ranked among those countries with the most concentrated ownership structure.⁶⁶ The industrial elite in Sweden may have been exceptional in the extent to which they were able to maintain a powerful position during the era of “functional socialism”. The industrial bourgeoisie has survived Social Democratic rule in all cases. Finland and Sweden conform more to the model of “organized capitalism”, with Denmark and Norway displaying characteristics less easily classified into this category. The stronger historical influence of guilds and middle classes and civil society institutions in the cultural and religious sphere may account for the more disorganized and “liberal” pattern in Denmark. The elites are always on trial in Norway, due to the lack of entrenched power structures and strong populist movements linked to the conflict between periphery and center. The distinction between the public and private spheres of life are less clearly drawn, and the Norwegians as well as the Danes are less formalistic and adjust less easily to hierarchical structures. The historical influence of aristocracy is more notable in Sweden (and perhaps Finland), and has been used to account for the more finely grained status hierarchies developed in this society. This stereotype has received new support in recent research on immigrant experiences from the Scandinavian countries.⁶⁷

Partly due to the lack of any strong aristocratic tradition and an overlap between national and democratic mobilization, Norway was the first country to become a formal democracy. Denmark was the second nation to make this transition, but its process was more abrupt, due to the entrenched absolutist forces. Finland and Sweden did not have a broad suffrage until the first decade

⁶⁴ Sampson, 1995:246.

⁶⁵ de Vries & Florent-Treacy, 1999:99–100.

⁶⁶ Henrekson & Jakobsson, 2001.

⁶⁷ Frank Meyer, 2001.

of the 20th century, when it was instituted abruptly, in the continental manner. Sweden's more gradual transition to a democratic system in 1921, when all men and women received the right to vote, was due to the long-term influence of representative institutions.⁶⁸

The relationship between democracy and management also depends on political circumstances, e.g. involvement in the EU, and established authority relations in each society. Sweden's state culture has been described as paternalistic corporatism, in contrast to Denmark's liberal welfare state.⁶⁹ In Sweden and Finland the prime movers were the nobility and the peasants, in Denmark the bourgeoisie and the nobility, in Norway and Iceland the bourgeoisie and the peasantry.⁷⁰ It has been argued that that the image of Norden as a culture-free formula for success has been closer to the Swedish self-interpretation than to that of the other Nordic countries.⁷¹ There has been a stronger inclination among Swedes to believe that Sweden (and Norden) could be a relatively culture-free area of social experimentation. It was as if they wanted to show the world that the success of Swedish industry and society was due to a universal formula. The Danes have reacted differently to attempts to import foreign models, as they have been keener to emphasize their own cultural heritage.⁷²

The "Nordic management style" argument has also been used by those who are interested in the consequences of political structures for the development of authority patterns. Management styles are supposedly more participative and democratic in these countries because of the strong democratic traditions and the smallness and openness of the political economies.⁷³ Scholars with backgrounds in economic history or business history may argue that management strategies are merely reflections of industrial structures, and therefore represent comparable advantages in natural resources. Sweden's historical emphasis on large firms and its relative strength in electronics and the steel industry, should, according to this argument, give rise to different management styles than in Norway, where smaller companies, shipping, and service industries have been more important. Neither perspective is sufficient when confronted with the puzzling differences between organization structures and management styles in the Nordic countries. Management is part and parcel of an authority structure in a society. It is, therefore, critical to approach the idea of a Nordic model of management and democracy from a broad perspective, identifying the major organizational entities and conceptual constructs in these societies in various periods, and employing a "feed-back

⁶⁸ It should be added that women did not receive the right to vote in Finland, Norway, and Denmark until 1906, 1913, and 1915, respectively.

⁶⁹ Knudsen & Rothstein, 1994.

⁷⁰ Beyme, 1992:192.

⁷¹ Ekwall & Karlsson 1999; Arnstberg, 1989.

⁷² Musial, 1998.

⁷³ Kalleberg, 1993; Katzenstein, 1985.

effect” – the impact of the prevailing view of the Nordic model in other countries.

The transition from the social democratic model of management toward something that looks like a combination of the shareholder value model and the professional model of management is linked to the rise of the more individualistic middle classes, as well as the development of a managerial knowledge community: universities and business schools, consultants, and the business press. An important challenge to the Nordic tradition is the Anglo-Saxon idea that the enterprise is the central unit of society, along with the emergence of a movement based on the idea that shareholder value increases customer value. There is now, in all Nordic societies, a relatively large group that earns its living by talking about management and providing advice to management; and this group relies on the ebb and flow of such concepts and movements. Ownership has not in itself been highly valued in the Nordic countries, due to their long tradition of functional socialism – the idea that it is not necessary to nationalize private property. Rather, they have found it possible to achieve the same means by regulating the markets to such an extent that property owners lose their power anyway, creating socialization by other means. These strategies of Nordic governments differ from those of Germany, where the idea of property was institutionalized in the role model of the owner-entrepreneur, and of the USA, where professional managers increased their power vis à vis fragmented shareholders.

The idea that shareholders ought to exert greater influence is promoted by a small but growing middle-class movement. There is an increased focus on the role of management, often justified by referring to the individual’s rights to choose, to human rights, and to the need of organizations to serve the consumer. Thus the traditional US model of management is becoming less realistic, built as it was on the idea of management as a profession, which implies a stakeholder view of the firm and the idea that a managerial career is a life project. Modern business life and social affairs relies on powers of communication and the ability to create temporary identifications and visions. Networking and trusting have become critical skills, due to a stronger emphasis on contracts, projects, and life-long competence shifts – a movement away from all the traditional management models associated with organized capitalism and toward a model of communicative management associated with an era of global capitalism.

The social democratic model of “Norden” was an attempt to find a middle way between capitalism and state socialism. This formula lost some of its attraction with the downfall of Soviet communism and the rise of global capitalism. Corporatism and stakeholder management formed a model that provided guidance for western industrial and political managers during the epoch of organized capitalism. The German and US versions of this model have been particularly influential in the Nordic countries. It was a natural consequence

of World War II that the German model lost its attractiveness, followed by a distinct shift toward the US model. The Nordic model that crystallized after World War II was sustained by the idea that it was a “middle way” – an example for people who wanted to avoid the extremes. Sweden, in particular, became a bellwether nation for some people.

This interest in the Swedish and Nordic third way gave Nordic managers and politicians confidence to initiate experiments for work reform and capital control, and also to invent new concepts like “service management” and “Scandinavian Management”. A more self-critical attitude has emerged since the alleged “fall” of the Swedish model in the early 1990s. Nordic industrial managers, such as Jorma Ollila at Nokia, have continued to take an active role in international business, but they have sought to avoid associations with particular political traditions and with the use of models and concepts linked to the Nordic region.

It is difficult for industrial managers in the Nordic welfare democracies to achieve a position of power and legitimacy that matches their wealth. Increasing economic gains for the upper middle classes in the private sector represent a threat against the traditional regime, as such gains undermine the status of the historically more powerful political and organizational elite. The long tradition of “functional socialism” and state paternalism implies that there is no strong support for the idea of unrestricted property rights or the suggestion that firms exist to maximize shareholder value. It is difficult to imagine a new Nordic compromise between a “shareholder value” and a “stakeholder” view of society. Nonetheless, it may be too early to wave goodbye to the Nordic model of compromise – the compromise between management and democracy and the compromise between extremes.

