Management in Scandinavia

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Culture, Context and Change

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Edward Elgar

Cheltenham, UK • Northampton, MA, USA

Published by
Edward Elgar Publishing Limited
Glensanda House
Montpellier Parade
Cheltenham
Glos GL50 1UA
UK

Edward Elgar Publishing, Inc.
136 West Street
Suite 202
Northampton
Massachusetts 01060
USA

A catalogue record for this book
is available from the British Library

ISBN 1 84376 431 8

Printed and bound in Great Britain by MPG Books Ltd, Bodmin, Cornwall

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Acknowledgements

First of all we wish to acknowledge our gratitude to the heads of our case study companies for letting us have access to their enterprises, and more specifically to all our respondents, managers, employees and union representatives who gave up hours of their valuable time to talk to us, answer our questions and show us production sites. Special thanks go to ekon.lic. Pavla Kruzela, Lund University, for being extremely helpful in establishing contact with a number of our Swedish case companies and for participating in interviews in a very competent manner. Next we wish to thank colleagues and peers who have given us valuable feed back and comments in their specific areas of expertise: Staffan Åkerblom, Programme Director of IFL AB – Swedish Institute of Management, Stockholm, Professor Even Lange, Department of History, Oslo University, and Assistant Professor Anette Risberg, Department of Intercultural Communication and Management, Copenhagen Business School. During the actual writing of the book Peter Lawrence visited some additional companies in Norway and Denmark, and he would like to thank these companies for their friendly cooperation. He also wishes to acknowledge financial support from the Loughborough University Business School, which facilitated participation in the fieldwork. Extensive reference has been made in Chapter 7 to research by R. Inglehart, commencing on p. 171. Permission to print excerpts from his work, which originally appeared as Chapter 3, 'Culture and democracy', in L.E. Harrison and S.P. Huntington (eds) (2000), *Culture Matters: How Values Shape Human Progress*, has been given by Basic Books of New York, © 2000 by Lawrence Harrison and Samuel Huntington.

J. Schramm-Nielsen, P.A. Lawrence, K.H. Sivesind
February 2004

1. Making the case

This book is a contribution to the expanding field of cross-cultural/comparative management. It addresses the issue of whether the main Scandinavian countries – Norway, Sweden and Denmark – exhibit such similarities in management style and practice that it is meaningful to speak of a Scandinavian management. This means that on the one hand we explore the homogeneity thesis, and on the other hand, as a consequence, we engage in the cluster theory discussion in the sense of asking if these three Scandinavian states constitute a country cluster.

Scandinavia is a fascinating region to study. First, because it is one of the richest and most advanced areas in the world in terms of development and use of technology; second, because these countries have done away with the flagrant inequalities that we find in most other countries around the world; and third, and not least, because these countries have developed a management style which is extraordinarily participative and process oriented without losing the battle for efficiency.

A country cluster theory based on attitudinal variables was first formulated in the early days of research on cross cultural management by Haire et al. (1966). Their theory of clusters of similar countries went against the accepted wisdom of the period, which was that of trust in universal management methods and standards. The 1970s saw a number of country cluster studies, but they did not attract much attention at the time. It was only when Hofstede started publishing his results from the comprehensive IBM study in 1976, and especially in his 1980 book on work related values, that the business research community and managers alike were shaken in their conviction about management universals, a thesis that Hofstede elaborated and enlarged in a later book (2001). It was as path breaking as the Haire et al. study. We will come back to these studies in Chapter 7.

Besides the country cluster studies, a number of studies have been conducted, which include one or more of the Scandinavian countries compared with countries outside Scandinavia, but none of these studies make a comprehensive synthesis of what is distinctly Scandinavian, nor do they try to distinguish clearly between commonalities within Scandinavia and what might be specific for each of the three countries here considered. This is exactly what we aim to do in this book. Whereas the studies hitherto published on Scandinavian values leading to the country cluster theory are all quantitative, our study is qualitative and based on multiple field interviews, to our knowledge the first study to do that. Our results we hope show what it means in terms of management practice and business culture to be a cluster.

The common sense justification for asking these questions is that over the years there has been a certain discourse on Scandinavian management, implying the existence of a distinct Scandinavian style of management. Outside Scandinavia this has often been explicitly or implicitly synonymous with Swedish management, represented by high flyers such as Chief Executive Officer (CEO) of SAS 1981–93 Jan Carlzon (b. 1941), a charismatic figure who described his management philosophy in his widely read book *Riv pyramiderne ned!*, 'Pull down the pyramids' (Carlzon, 1985); Pehr Gyllenhammar (b. 1935), CEO of Volvo 1971–90, who took an active part in the public debate about corporate ethics and responsibility, or the former ABB star Percy Barnevik (b. 1941). They were all heroes of the 1980s, when Sweden was still enjoying the reputation of a strong, industrialized, and rich welfare state, a role model for many other countries. When these companies started to fall behind, their management style was questioned, and since then they have all fallen from grace for various reasons. Actually, in our view, the individuals cited were rather un-Swedish or un-Scandinavian in their style, outstanding exceptions and not really representative of what we have come to consider mainstream Swedish or Scandinavian management. This we hope to illustrate in the following chapters.

Inside Scandinavia, the people of the three countries have a more or less diffuse picture of what the distinct Scandinavian style might be, each one probably thinking in terms of his or her own national culture.

The homogeneity thesis takes as its starting point the fact that these three countries represent a number of core values on different levels of analysis: at the societal level, where we expect to find institutions with similar basic philosophical and ethical attitudes; at the level of the labour market, already documented by other researchers; and not least at the organizational level and the level of people management.

Now, if we want to establish at least a probable link between these levels of analysis, it follows that we have to search more widely than is usually the case in comparative studies, which typically probe into specific themes such as that of welfare states (Esping-Andersen, 1990), labour market issues (Galenson, 1998) or human resource management (Jackson, 2002). In this book we cast the net wider by including (in Chapter 2) the context, in the sense of the main features of history, state building, religion, natural resources, the economy including historical development of the economy, the political forces of recent decades, and even key national personalities, where we find them indicative of each country. The purpose is to provide readers, especially the non-Scandinavian readers, with the necessary overview of the three countries in order for them to be able to understand how and why the countries exhibit the characteristics that we find today. These descriptions are not intended to be comprehensive, but rather indicative.

Chapter 2 also shows that our three countries share a certain number of basic cultural variables such as history, the protestant-evangelical religion, which shapes the ethical values, and similar but not identical languages, all of which give the inhabitants a vague feeling of togetherness and commonality. This of course has contributed to our choice of these countries.

In view of the movement towards European integration in politics as well as in economic coordination, where we already see a much stronger input from these North European countries than we have seen before, and in order for the Scandinavians themselves to understand what distinctness they bring with them into the European cooperation, we hope to fill in some of the gaps in the knowledge and understanding of these northernmost countries of Europe.

This book is based on what is arguably unique, certainly new empirical data in the form of 70 interviews with managers in the three countries – top managers, middle managers, foremen and trade union representatives – on a broad spectrum of issues including strategy, production, management–workforce relations, human resources, company culture, conflicts and management *esprit de corps*. The interviews lasted from one to three hours each; they were tape-recorded and transcribed in full for analysis. The mean age of our interviewees was 44.7, and they had from three to 41 years of work experience. The respondents were almost equally divided between the three countries. All interviews were conducted in English apart from a few with union representatives who were less comfortable speaking English. One of the interviewers, however, understands all three Scandinavian languages and translated on the spot with the respondent controlling for meaning.

As well as the interviews, we had published materials on each company, such as the company history, personnel magazines, up-to-date financial performance data and information on the organizational structure, pay systems and so on. We never visited a head office alone, but always included a production unit to see how things worked and gained an impression of how the production was organized. On average we spent two days in each company.

The research design is based on a number of matched companies in a limited number of industries across the three countries. This design was pioneered by the researchers at Laboratoire d'Economie et de Sociologie du Travail (LEST) at Aix-en-Provence in southern France. In a famous study LEST compared matched companies in France and Germany. The design has the obvious advantage of allowing us to see whether there are differences between the countries when we hold industry constant, at the same time allowing us to ask whether there are differences between the industries if not between the countries. Our definition of an industry is a set of firms manufacturing products which are of a like function and nature. Critics of the idea of distinct characteristics of national or regional business cultures have often argued that industries or professions cross country have more in common than have different nation-based industries or professions. As a result of our research we will be able to say whether this is the case in the industries that we have chosen. The industries that we will report on here are brewing, furniture, confectionery and shipbuilding, which will each be documented in separate chapters: brewing in Chapter 3, furniture in Chapter 4, confectionery in Chapter 5 and shipbuilding in Chapter 6. Each of these chapters will start by setting the scene in the shape of an overview of recent international development of the industry in question, against which backdrop our case study companies will be described. Each industry will have three case examples, one from each country.

The criteria for choosing the industries were several. First, we wanted industries that would be as old as possible, that is, traditionally country based in the hope that they would show cultural characteristics, if these existed. Second, they would have to be present in each of the three countries; as readers will see from Chapter 2, discussing the Scandinavian context, this greatly limited the choice available since the natural resources are very different from one country to the other and so consequently are the variety of industries represented. Third, the case companies had to be of a certain size, big enough to have a reasonable organization structure and important enough to contribute to the national economy. Fourth, the companies should be nationally owned. All of these criteria aimed at isolating, as far as possible, *national* characteristics. The last criterion, however, turned out to be a stumbling block in our research design, since in this era of internationalization and economic expansion, we saw a number of mergers and acquisitions taking place, many of them inter-Scandinavian, but in the case of Sweden nearly the whole sample of Swedish companies are in foreign ownership. This is partly due to the economic crisis that Sweden went through in the 1990s and partly due to the structure of Swedish industry, as will be explained later. This is not just a mishap in our research design, but a general feature of recent Swedish economic development. Consider these examples of corporate Sweden being merged with or acquired by foreign investors: Kockums was merged with German HDW. The steel company Avesta was merged with Corus, formerly British Steel. Saab automobiles was bought by General Motors. Volvo was acquired by Ford Motor Company. Astra Laboratories were merged with British Zeneca and another pharmaceutical company, Pharmacia, was merged with US Upjohn. Many of the head offices have been transferred to somewhere outside Sweden.

As it turned out, however, this fact did not influence our interview data much, since all of our respondents were natives of the particular country, except for one, and he was from one of the other Scandinavian countries.

However, some of the criteria did work to our advantage. Take the shipbuilding industry; from Chapter 2 it will appear that this industry has lasted more than a millennium, that it has played a major role in the history of all three countries and still does, although Swedish shipbuilding has recently been limited to military vessels, which incidentally blocked our access to data. Or consider the brewing industry, which goes back to the early Middle Ages, first as production on each farm and later as production at the local township level. In Denmark alone, breweries could be counted by the hundreds for many centuries. Or the furniture industry. Until the cost of transportation was reduced dramatically, it was essentially a local industry, and even today we see distinct differences in style between the three countries.

In Chapter 7, which discusses differences and similarities, we will turn round the perspective and focus on countries instead of industries. The chapter will summarize the findings from the previous industry chapters by reconsidering the main themes treated in Chapters 3, 4, 5 and 6, and especially draw on Chapter 2 for possible explanations of our findings, or to put it differently look for deep structures in history, state building and political development that might help explain similarities as well as differences between the countries. This will also be the opportunity to re-examine the homogeneity thesis and the country cluster theory.

Finally, in Chapter 8, 'Present and prospect', we will answer our main question of whether there is such a thing as a distinctive Scandinavian style of management, and if so, how it can be compared with other national styles of management. We will attempt some judgements on the strengths and weaknesses of the Scandinavian style(s), point out changes that are in process, and we will venture some predictions on the future of Scandinavian-style management in view of the up-coming deeper integration into the enlarged European Community and the involvement of Scandinavians in international affairs, such as peace initiatives, international trade negotiations and the engagement in the economic development of poorer countries.

The three authors are all experienced writers and researchers in this field. We represent three different nationalities, British, Danish and Norwegian, which we like to think is an asset in any cross cultural endeavour, serving to reduce the risk of ethnocentrism. All of us have international experience, having lived and worked outside our country of origin, and each of us have expertise in a number of countries and cultures, enabling us to situate Scandinavia in the wider international context.

What audiences do we have in mind?

Our target groups are academics and practitioners. Within academia this book is of interest to researchers and teachers in comparative/cross-cultural management and to students and teachers of international business or general management, as well as to executive training programmes with an international focus. Other likely groups are teachers and students in corporate governance, international human resource management, operations management, inter-cultural communication, inter-cultural management and organizational issues.

It will also be useful for practising managers, all those operating in a Scandinavian context inside or outside Scandinavia, to people working with Scandinavians in international organizations or in foreign affairs. In this connection we also have in mind politicians and civil servants in the European Union (EU) administration, and other international organizations where Scandinavians are involved. It might also be helpful for civil servants in Scandinavia who would like to understand the background of their institutions in a short historical perspective.

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2. Context

COMMON FACTS AMONG THE THREE COUNTRIES

Our three countries have a number of features in common, albeit they are all constitutional hereditary monarchies, the first born automatically being the heir in Norway and Sweden, whether a son or a daughter. In Denmark, a son has priority so far, but this will no doubt be changed should the present crown prince have a daughter as first-born. The three royal families have intertwined family relations, although these days spouses are mostly chosen outside family circles. Power lies with Parliament, and the roles of the members of the royal families are mostly representative and are an undeniable asset in campaigns for foreign trade.

The three main Scandinavian countries have been nation-like entities for at least a thousand years, and they can look back on at least a millennium of historical bonds and changing coalitions and unions, although this shared history has not been devoid of conflicts and even wars.

The first historical period for which there are records is the Viking period, from around AD 800 till about AD 1050 during which adventurous expeditions set out from the Scandinavian coasts to raid and trade on neighbouring shores, especially those of England, Scotland, Ireland and France, and also eastbound to the Baltic countries and Russia, reaching as far as the Court of Constantinople and the Italian shores, all thanks to their famous longships and navigation techniques. The Norwegians even went as far as the northeast coast of North America, without settling. Apart from worldly things the Vikings eventually brought back Christianity, late by European standards, and the introduction of the Christian faith really meant the end of the Viking period. But it certainly did not end the skills and traditions of the sea, including shipbuilding, which is one of the industries that is subject to our scrutiny.

Today the Scandinavian people share Protestantism of the Lutheran-Evangelical branch as an ethical and moral foundation. Scandinavians do not demonstrate their religious adherence by frequent church attendance, and faith is considered a private matter that one would not ask about in ordinary conversation. Rather, religious adherence points to a deeper level of shared philosophical worldviews.

In terms of civilization these countries were long on the outskirts of Europe, but the elites were always in contact with the cultural movements of Central and Southern Europe and did not escape the political turmoil and shifting power relations shaped by what natural resources were in demand and what political constellations were formed.

Similar Languages

The Scandinavian languages (Danish, Norwegian and Swedish) are part of the larger group of Nordic languages, including also Icelandic and Faeroese, all part of the Germanic family of languages. Originally, up till around AD 1200, the present Nordic languages were considered one common language, but during the Viking age (AD 800–1100) divergence started that eventually led to the present single languages. The Scandinavian languages are similar to a certain extent, especially Danish and Norwegian, but not always immediately comprehensible without some training and exposure.

Welfare States and Wage Equality

All three countries are welfare states of the Scandinavian type. The main difference between this type and a continental European type or Anglo-Saxon type is that it follows a universal principle, meaning that everybody is entitled to social security benefits independent of income, prior or present. In other words, a person is entitled to social benefits whether he or she has ever had a job or an income.

The Scandinavian countries have often been considered too generous. High average wages combined with a high level of public social insurance and welfare services must, so to say, be too expensive in an age of globalization. If labour-costs are too high, increased capital mobility would mean that production would move elsewhere. At least it should mean no establishment of new activities in Scandinavia, goes the argument. This sounds reasonable, but it is contradicted by the fact that Norway, Sweden and Denmark have recovered from the economic slump at the end of the 1980s or the beginning of the 1990s. Unemployment now is lower than in the rest of the EU. The small but open economies of the Scandinavian countries have had to adapt to changes in international markets since the process of industrialization started. An integrated European economic area and deregulation of finance and credit markets did not in fact mean the end of the Scandinavian model. At least not yet.

To understand why, we need to take a closer look. It is the case that wages for low-wage groups are higher in Scandinavia than elsewhere. However, wages for high-wage groups are also lower. Norway, Sweden and Denmark have the most compressed wage distribution among 17 Organisation for Economic Co-operation and Development (OECD) countries, if we look at the difference between the top 10 per cent and the bottom 10 per cent (Barth et al., 2003). In the United States and Canada, the top wages are more than four times higher than the bottom wages, whereas in Scandinavia they are little more than two times higher.

A different study shows that the basic pay for US top managers in the Standard and Poor's 500 index was 90 times higher than that of the average production-worker in 1996 (Murphy, 1999). Norwegian top managers' basic pay was just eight times higher (Dale-Olsen, 2003). If pensions, stocks and options were to be included, the difference between the United States and Norway would be even more extreme (Hall and Murphy, 2003).

A survey of 12 OECD countries shows that the average of the top 5 per cent wages in Sweden is just US$150 000 (Abowd and Kaplan, 1999). Norwegian top wages in similar companies are even lower, just US$120 159 (Dale-Olsen, 2002). Scandinavian wage differentials may have increased slightly in recent years, but it does not really change the situation. Managers and highly educated personnel have relatively low wages. Wages are compressed in the middle in Scandinavia.

According to Barth et al., countries with highly coordinated wage determination tend to have smaller wage differentials. The highest rates of union membership in the world, the fact that on average three-fourths of the working population are covered by collective agreements, combined with frequent centralized wage negotiations means that the Scandinavian wage determination is extremely coordinated (Barth et al., 2003). In national wage negotiations, trade unions take employment and prices into account. Coordination leads to moderation – and in Scandinavia this includes aversion to inequality. Normally employers would want to outbid each other for the best labour. This gives them a free-rider problem. However, in centralized negotiation they prefer to keep the average wages as low as possible. This is why highly coordinated wage formation results in smaller wage differentials and moderation when there is an understanding of crises in the economy (Sivesind, 1996). Contrary to common wisdom, coordination is good for adaptation to rapidly changing world markets. It makes transfer of labour between industries easier, it rewards highly productive industries with low wage-costs and thus facilitates entrepreneurial activities, and it reduces unemployment.

It seems paradoxical that the Scandinavian countries with small differences in wages also have fairly generous welfare states. Why level out the differences between people when the differences are so small? It seems as though the welfare states in general are more generous in countries with small differences in income (Barth et al., 2003). One reason is that small and open economies are vulnerable to external shocks, which makes it sensible to distribute the risks between different industries and types of employees through welfare arrangements (Katzenstein, 1985). Social insurance is not primarily motivated by an urge to increase equality, but by a need for insurance against temporary hardship. When there are small wage differences, a larger share of the population feel a need for such insurance, in particular in countries exposed to the rapid changes in an internationalized economy.

Barth et al. argue that generous welfare arrangements contribute to a compressed wage structure because they strengthen the position of marginal groups in the labour market. People are less vulnerable to threats about losing their job, which gives more power and increased pay. Higher minimum wages increases the motivation to get a job, and hence reduces unemployment. An egalitarian wage structure creates support for a generous welfare state. Consequently, there is an institutional balance between coordinated wage formation and social insurance that results from an adaptation to an open economy. Globalization and increased exchange of goods does not threaten this institutional balance, on the contrary.

The Scandinavian model is primarily threatened by its own success. By creating a well-educated middle class, competition between the trade unions and federations has increased. Employers' incentives for outbidding each other for the best employees increase knowledge-based production. In addition, knowledge-workers with confidence in their own market value and ability to guard themselves against misfortunes may no longer want compressed wages or expensive, universal social insurances. They may be better off with individualized wages and insurance. Consequently, increased inequality may reduce support for the welfare state, and a less generous welfare state may weaken marginal groups in the labour market and further increase wage-differences.

Trade Unionism

The power of the labour movement is legendary in Scandinavia. It reflects the relative balance of power between capital and labour both in political and industrial relations implemented by strong social-democratic parties (Ibsen, 1997).

The industrial relations system in Scandinavia was based on 'basic agreements', first in Denmark in 1899, then later in Norway in 1936 and Sweden 1938 (Saltsjöbadavtalet). The basic agreements stipulated the ways of regulating the labour market: basic union rights, the managerial prerogative, the collective agreement as the way to regulate wages and work conditions, and ways to solve industrial conflicts. Another key element in the Scandinavian model is the union structure and the high density (Ibsen, 1997). Union membership is especially high in Sweden and Denmark (around 80 per cent for blue- as well as white-collar workers, and somewhat lower in Norway

(57 per cent). Indeed, Scandinavian union membership rates are among the highest in the world, equalled only in Israel. The two main parties, the employers and the workers, soon became so well organized that often both realized that neither of them would be able to win an open fight, and consequently the compromise became the solution *par excellence*. Should a compromise not be reached in the first place, social-democratic governments tended to intervene, directly or indirectly, often at the expense of the employers. Their common desire to keep government intervention at a minimum has facilitated orderly and responsible collective bargaining. On the other hand the close relationship between social-democratic governments and the labour unions has also led to a comradeship and complicity between them, which may have blocked the way for solutions not invented by either of them (Schramm-Nielsen and Lawrence, 1998).

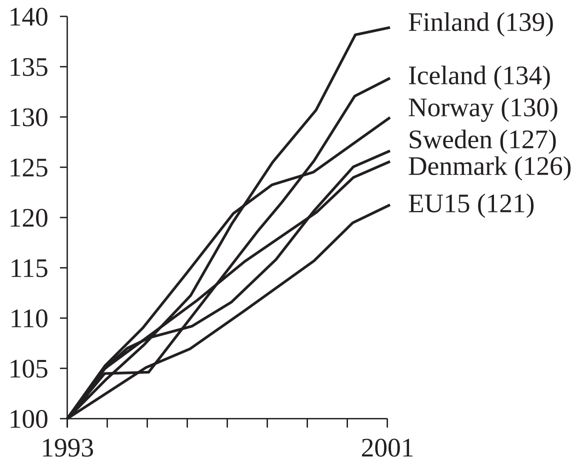
The interaction also comprises the political sector, and in this respect the Scandinavian countries and, until recently, especially Sweden represented a corporatist model, where the interest organizations on the labour market initiated and created a system of representation in political bodies and where we still find an intensive cooperation between these organizations and the state. Thus the two central labour market organizations cooperate with government bodies to formulate the main guidelines for the implementation of economic and social policies. This tripartite cooperation has been institutionalized, a routine has developed over the years, and the result is an integrated consensual decision-making system, in which the interests of the large majority of citizens are recognized. This pattern of relationships is especially marked in Sweden (SOU, 1990:94).

All this contributes to a deliberate restraint and regulation of open conflicts, where the bargaining power of each party is decisive and calls for moderation but where, on the other hand, trade unions and other interest groups may influence government policies (Schramm-Nielsen and Lawrence, 1998).

The bargaining structure in the Scandinavian countries has historically been a combination of centralization and decentralization, centralized agreements on the national level between the two national federations on the employer and employee side, and decentralized at the local branch or enterprise (Ibsen, 1997). The tendency is now towards decentralization and individualization of the wage formation process.

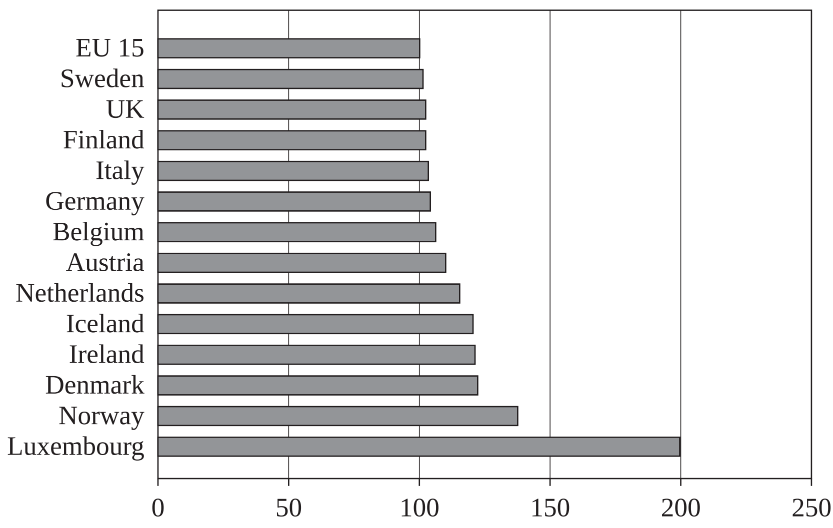
Economies in High Gear

Today the region is one of the most active economic concentrations in Europe, as will be seen from Tables 2.1 and 2.2 which show real growth rates in the period 1993–2001 and per capita gross domestic product (GDP) above the EU average in 2001.



Source: Eurostat/Hanell et al., 2002.

Figure 2.1 Real GDP growths 1993–2001 (index 1993 = 100)



Source: Eurostat/Hanell et al., 2002.

Figure 2.2 Nordic and European GDP per capita in PPS 2001 (index EU 15 = 100)

The World Economic Forum evaluates the economic competitiveness of a large number of countries. In its annual report for 2003–2004 it comprised 102 countries, which account for 97.8 per cent of the world's GDP in total, and