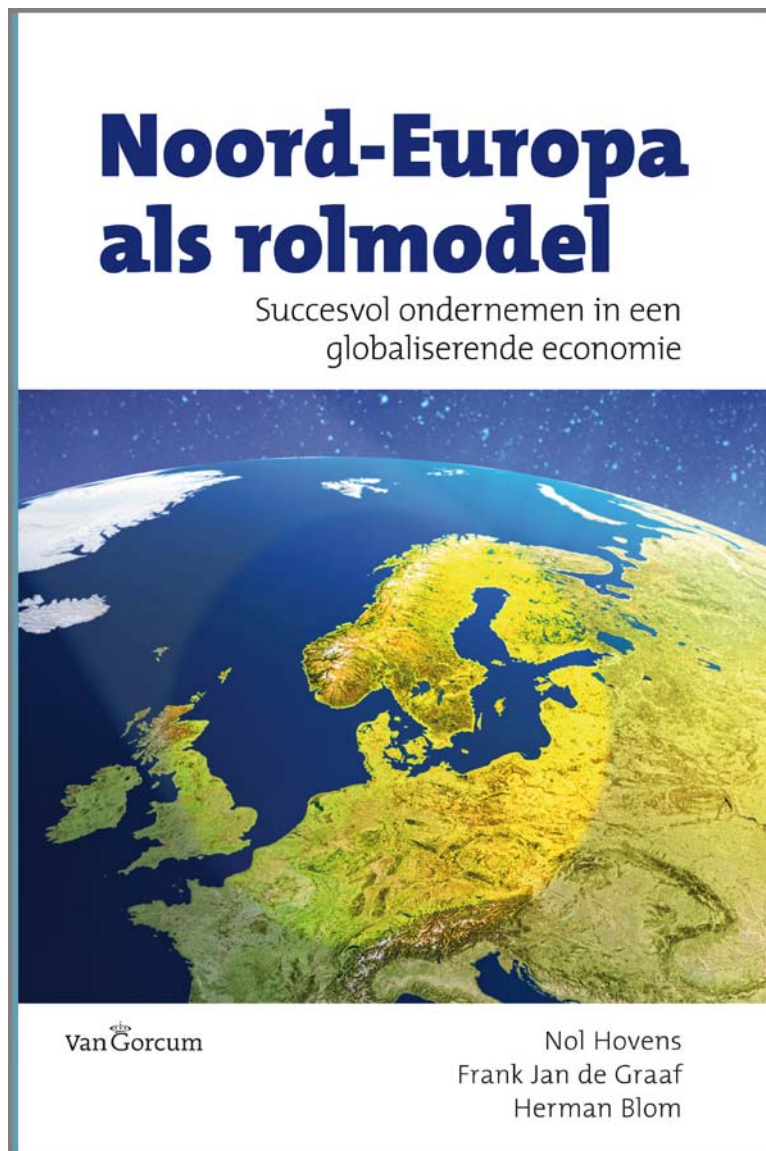


Summary of

# Northern Europe as a role model

## Successful enterprise in a globalising economy



**Frank Jan de Graaf, Nol Hovens, Herman Blom**  
Professorship International Business  
Hanze University of Applied Sciences, Groningen

Published by Koninklijke Van Gorcum BV. Assen, 2012





# Contents

- 1. Northern Europe - a successful region ..... 5
- 2. Megatrends - challenges for companies and regions ..... 7
- 3. Northern Europe – a different perspective on economic development ..... 8
- 4. The Northern European countries as an economic and cultural cluster ..... 9
- 5. Companies in Northern European countries..... 13
- 6. Northern European as a role model in a globalising economy..... 16
  
- Appendix I. Global Competitiveness Index Ranking 2010/2011 (WEF, 2010)..... 18



# 1. Northern Europe - a successful region

Does Northern Europe possess unique characteristics that cannot disappear and do not need to disappear, or will globalisation inevitably result in uniformity, divested businesses, lower wages and huge pressure on social security provisions? This is one of the main questions addressed by this book, which is the result of a research programme undertaken by the Professorship International Business of the Hanze University of Applied Sciences in Groningen.

The process of globalisation is one of the defining trends of recent decades. Companies now spread their production activities and sell their products worldwide, investors operate globally, entrepreneurs have to contend with competitors on the other side of the world and there is labour migration and immigration. Within this globalisation process we are witnessing the emergence of regions with unique characteristics and specialisations – regions that often defy national borders. When evaluating potential business locations, companies look at regional characteristics. Should we opt for Northern Europe or Southern Europe, should we set up business premises somewhere in Southeast Asia, would China be preferable, or should we seek business premises in the Southern or Northern Netherlands?

In this book this so-called ‘glocalisation’ process is discussed in relation to the debate regarding the way economic systems are structured. What is the best way for us to reshape our society and our businesses in response to globalisation and the associated challenges such as demographic developments, computerisation and the struggle to preserve natural resources (sustainability)? At the moment our economies appear to be trapped in an unhealthy status quo that cannot resolve the economic challenges that now confront them, hence the assiduous search for a new and different analytical framework, a new paradigm for business management and government administration (see for example Balkenende, 2011 and Boutellier, 2011).

In the book we examine how companies respond to global developments. We also discuss the implications of these developments for entrepreneurs and whether knowledge institutions and governments play a part in creating a climate that is conducive to enterprise. We consider these issues from the perspective of different regions. Each region has its own distinct regional characteristics and its own distinct regional views on particular issues. As well as endeavouring to describe the key macroeconomic characteristics, we also consider how (entrepreneurial and policy-making) organisations should respond to the current macroeconomic challenges. In this respect we share the view of Elinor Ostrom (2009), winner of the Nobel Prize in Economics, who said in her acceptance speech that the problems we currently face need to be understood at different levels. Macroeconomic developments need to be assessed in relation to the response of businesses.

Global competition has prompted a search for the optimal combination of region and enterprise. Companies explicitly consider the characteristics of different regions. Of the systems adopted in Japan, the United States, China or Europe, for example, which is the most successful? Do entrepreneurs in different countries adopt different approaches? This makes regions part of a political debate. The zeitgeist has a significant influence on the choice of ‘formula’. For the last thirty years Japan, the United States and Germany have been regarded as examples of ideal systems. This has now shifted to Asia in general and China and India in particular, and it may well shift to South America, with Brazil being a leading example, and South Africa in the near future. At the same time the debt crisis in Europe has created tension between northern and southern regions of Europe. The debt problems of Southern European countries could jeopardise the euro.

In the last twenty years researchers in the fields of economic science and business administration have published a great deal of research comparing social governance systems (which determine how society is organised) and corporate governance structures (which determine how enterprise is structured). Among other things the research findings show that Europe differs from the United Kingdom and the United States in that it has a social market economy, while the so-called Anglo-American countries have a free market economy. Others make further distinctions between Southern Europe, Northern Europe, Eastern Europe, the United States and the United Kingdom and various Asian systems (see for example Goodijk, 2008 and Segers, 2009).

The different social governance systems all have their own strengths and weaknesses. Yet Anglo-American market thinking has predominated for the last thirty years. Policy-makers in general and economists in particular have promoted the idea that the effects of market mechanisms are beyond doubt (Stiglitz, 2010). This is both a theoretical discussion and a political discussion.

Which economic system do we believe will be most effective in resolving the challenges that now confront us? For the last twenty years the United States and the United Kingdom have served as the economic role model. Governments throughout the world have endeavoured to stimulate market mechanisms. In the wake of the financial crisis there is a search for other models that provide a framework for social and corporate organisation. The Asian model (Segers, 2009), the Rhineland Model (Albert, 1991) and the Nordic Model (Eklund, 2010 among others) for example, have all been advocated as alternatives. In all of these publications free market ideology is judged to be one-sided and undifferentiated and seen as a threat to the social structures that make economic progress possible. In the Rhineland and Nordic models long-term collaboration between social partners (employees, employers and the government), who work together to ensure business continuity in a social market economy, is considered to be very important. Long-term interests are a key factor in this respect. This approach is very different from market systems that prioritise the maximisation of shareholder wealth in the short term.

This book focuses on Northern Europe. In our region we are clearly doing something different and, as it happens, often something far more effective than 'market thinkers' would have us believe. In this context we see Northern Europe as the Netherlands, Germany and the Scandinavian countries. If we are aware of what we are doing better, we can improve it further still in order to meet the challenges of the future. Again we would reiterate that our comparison is not confined to purely macroeconomic terms, for we believe that Northern Europe can only be properly analysed if the relationship between macroeconomic characteristics and individual organisations is treated as a central factor. Collaboration between companies, government agencies, knowledge institutions and other public organisations is an important feature of economic systems, certainly in Europe.

We explore the extent to which the area of the historical Hanseatic League (still) operates a single socioeconomic region and the extent to which the characteristics of the businesses in this area provide an answer to the challenges of a globalising economy. Does Northern European entrepreneurship offer an answer to global competition, the changing socioeconomic structure, the need to ensure corporate social responsibility and sustainability and the challenges involved in making the best use of new information technologies such as social media and the internet? Or does the emergence of a global economy mean a 'race to the bottom' - an economy in which all efforts are directed toward achieving the lowest possible price, a dog-eat-dog economy in which companies, countries and regions are forced to rely entirely on their own efforts? We look at how the Northern European economy relates to the free-market and social market models and we identify the elements of the different models that form the economy of the Northern European region. We also identify the specific characteristics, strengths and weaknesses of the Northern European economy. Our research is summarised in Figure 1.1.

Market Model	Social Market Model	
Liberal/free-market model	Coordinated market model	
Liberal welfare state	Corporatist welfare state	Social-democratic welfare state
Shareholder-driven business model (profit-driven)	Stakeholder-driven business model (profit and industrial relations both important)	
Anglo-American Model	Rhineland Model	Nordic Model

**What makes Northern European businesses successful and what role do governments and knowledge institutions play in their success?**

*Figure 1. The research question explored in the book*

In the chapter summaries that follow we start by discussing the big global trends now facing countries and companies and to which they are forced to adapt. Then we explain why we need to view the economy from a different perspective and, in the next chapter, why, seen from this perspective, Northern Europe as a region is a success. Then we show that companies in Northern Europe are successful on the basis of their own principles and we end by drawing conclusions.

## 2. Megatrends - challenges for companies and regions

The world is changing. There are national and international political developments, economic developments and technological innovations and new products and services are constantly being brought onto the market. Companies and policy-makers respond to these developments. It is important to understand the societal changes that lie behind these developments: the so-called megatrends. Megatrends are trends that have a major influence. They differ from the developments mentioned above in that they influence the development of societies for several decades (Naisbitt, 1982).

The main megatrends now affecting companies and regions are (Larsen, 2006, Kool et al., 2010, Keuning, 2011, Gratton, 2011, Geo promotion, 2011<sup>1</sup>):

- Globalisation: Global production and sales, international capital investments, international competition, outsourcing and offshoring, labour migration and immigration.
- Technological developments: These include both 'new' technological disciplines, such as nanotechnology, biotechnology and cognitive sciences, and developments in the field of IT and social media.
- Sustainability: Scarcity of raw materials and energy, environmental pollution, solutions designed to address these issues and corporate social responsibility.
- Demographic developments. These include population ageing, lower birth rates (in the West), consequences for the labour market, the quality of the labour force and labour migration. As a result of these demographic developments emancipation and individualisation have become increasingly important in recent decades, certainly in the Western world.

<sup>1</sup> K. Groen speaking at a congress entitled 'De grensoverschrijdende regio, krachten in het Noorden' [The transnational region, forces in the North], on 13 May 2011.

The process of globalisation also involves a kind of counter movement which is referred to as 'glocalisation'. As global collaboration, trade and exchange intensify certain countries or certain regions within and between countries start operating as a single entity (Sorge, 2005). Companies seeking a business location in Europe are a simple example. These companies will consider several regions in Europe. The actual business location is generally not that important.

Dicken (2011) has described the processes of globalisation and glocalisation in detail. Globalisation involves a complex of four processes, namely:

- Localisation processes: the tendency towards geographical concentration of economic activities. The emergence of economic clusters such as Silicon Valley and the flower-growing region in the Netherlands are typical examples.
- Internationalisation processes: the tendency for economic activities to occur all over the world, without a strong functional connection. For instance, beer is now brewed and cola is now drunk all over the world.
- Globalisation processes: a wide geographical spread with a strong functional connection. The fact that mobile phones contain parts that come from all over the world is an example of a globalisation process.
- Regionalisation processes: globalisation processes that occur within smaller geographical entities, such as supranational bodies (the European Union, NAFTA (Canada, Mexico and the United States), UNASUR (South American nations) and ASEAN (Southeast Asian nations) for example).<sup>2</sup>

In the introduction to his book Dicken states that globalisation does not mean that regional differences will disappear, or that there will no longer be any borders, or that the corporate sector will take over the role of the government or that globalisation is all good or all bad. It means that the economic playing field is changing and the role of companies, governments, countries, regions and technology is therefore changing accordingly. This has both positive and negative effects, which differ from one sector to another. Given that this is the case, what is the position of Northern Europe as a region in relation to these economic developments?

### **3. Northern Europe – a different perspective on economic development**

In the wake of the financial crisis the dominance of neo-classical economic thinking has been broadly called into question. Most economists are fervent advocates of a liberal neo-classical world view. But such an approach is unable to solve the current social problems and to meet the challenges posed by the megatrends described above because it fails to attribute value to institutional relationships and does not acknowledge the role of ethical values on which trust is based.

The thinking behind the free market model is rationalistic and places a strong emphasis on measurable results. This thinking is based on the principles of Taylorism and the financial gain of the shareholder or the 'principal-agent' relationship and it is especially predominant in the American and British economies in particular (Anglo-American model).

In contrast to this perspective is the perspective adopted in Northern Europe in particular, which is based on the Rhineland model (the Netherlands, Germany, Austria, Switzerland and the Scandinavian countries) and the Nordic model (Scandinavia specifically). In the Northern European model a company is seen as a coalition of stakeholders.

---

<sup>2</sup> For an overview of international socioeconomic alliances see:  
[http://nl.wikipedia.org/wiki/Noord-Amerikaanse\\_Vrijhandelsovereenkomst](http://nl.wikipedia.org/wiki/Noord-Amerikaanse_Vrijhandelsovereenkomst)



We see the same dichotomy between economic science and management science. The prevailing ideology in economics is Anglo-American. This ideology takes a calculating view of humankind and analyses a company primarily from a financial point of view. The management science on which the Nordic and Rhineland models are based adopts a social view of humankind and includes a powerful movement that gives importance to socio-cultural elements such as group processes, creativity and expertise.

These different perspectives have methodological consequences. From the one perspective – positivism – the idea of knowledge is based on the premises that ‘to measure is to know’ and speaking and thinking are done from a position of authority. The owner of capital or knowledge has the say. Contracts, protocols and rules are the primary ‘management tools’. The other paradigm is more holistic and hermeneutic. Deferral to authority is supplanted by the principle of inviting people to speak from their own experience. Capital and knowledge are developed by everyone and belong to everyone. Personal relationships are the primary management tools.

We present a new perspective, a reflective approach to economic development that relates commercial and entrepreneurial activities to processes between different social groups. Economic efficiency is only regarded as a sound priority if it does not hamper the economic development of the different social groups. From this perspective economic development is defined not only in financial terms, but also in social and societal terms, while at the same time it is also accepted that these kinds of social values are not easy to measure. However it is essential that social values are recognised as important values.

## 4. The Northern European countries as an economic and cultural cluster

### Northern Europe as an economic cluster

The Northern European countries are closely linked in terms of their economies (see Table 1).

Destination	Netherlands	Germany	Denmark	Norway	Sweden
Export country*					
Netherlands		24.3%	1.3%	1%	1.7%
Germany	6.6%		1.6%	0.8%	1.9%
Denmark	6%	17.6%		4.5%	12.7%
Norway	10.4% (2008)	12.8% (2008)	no figures available		6.5% (2008)
Sweden	4.7%	10.2%	7.3%	10.6%	

\*The figures are percentages of the total export earnings of the different countries.

Origin	Netherlands	Germany	Denmark	Norway	Sweden
Import country*					
Netherlands		19.1%	1.1%	2.5%	1.5%
Germany	8.4%		1.6%	2.6%	1.5%
Denmark	7%	21.1%		7%	13.2%
Norway	4.2% (2008)	13.4% (2008)	6.9% (2008)		14.4% (2008)
Sweden	6.5%	17.9%	9%	9%	

\*The figures are percentages of the total import earnings of the different countries.

Table 1. Economic interrelatedness in Northern Europe (figures 2009)<sup>3</sup>

<sup>3</sup> Sources used: <http://www.cbs.nl/en-GB/menu/themas/internationale-handel/cijfers/extra/2008-animatie.htm>; <http://www.destatis.de/jetspeed/portal/cms/Sites/destatis/Internet/DE/Navigation/Statistiken/Aussenhandel/Handelspartner/Handelspartner.psm1>;

### **Northern Europe as a socio-cultural entity**

The Northern European countries are also closely aligned in terms of their culture. Hofstede's comparative study of national cultures (Hofstede, 2010) shows that there are remarkable socio-cultural similarities between the Netherlands, the Scandinavian countries and, to a lesser extent Germany (see Figures 1 and 2).

In all of the countries the *power distance* is relatively low. The countries are also *individualistic* (the scores for the Netherlands, Germany and Scandinavia are 80, 67 and 71 respectively). The Netherlands and the Scandinavian countries are also differentiated by their low scores for *uncertainty avoidance* (44 and 43 respectively). Germany has a higher uncertainty avoidance score (65) and also occupies a slightly different position on the *femininity* and *masculinity* scale. However, while there are minor differences in emphasis, the Northern European countries can be regarded as a socio-cultural entity, certainly in comparison with other countries.

The socio-cultural differences are reflected in the socioeconomic structure of the countries.

### **Socioeconomic similarities**

Esping-Andersen (1990) proposed a classification of welfare states. He divided welfare states into regime types based on size, the standard of amenities, organisation and the rights and obligations of the different parties. On this basis he identified three main types of welfare state: liberal, corporatist and social-democratic.

In a *liberal welfare state* the standard of amenities is relatively low and benefits are generally means tested. The low standard of amenities is related to the allocation of limited social rights (rights to housing, education, income and work in particular) to individual citizens.

In *social-democratic welfare states* the amenities are universal (in other words they are allocated to everyone) and they are also of a high standard. Social rights are most advanced in this type of welfare state. Rather than the emphasis being on the protection of the family (in the case of the corporatist welfare state) or on the market (in the case of the liberal welfare state), the emphasis is on increasing the independence and autonomy of the individual. 'Flexicurity' is a relatively new welfare state approach. It is easier for employers to dismiss employees, yet benefits are higher (albeit for a shorter period). This approach also involves the active creation of employment, intensive supervision of employees and lifelong learning. The flexicurity model is producing good results in Denmark (Leschke and Watt, 2008, Muffels, 2009).

*Corporatist welfare states* occupy the middle ground between the other two types of regime. Rather than being primarily concerned with the operation of the free market, corporatist welfare states place the emphasis on the protection of status and preservation of status differentials. Given that this is the case, there is less redistribution between the social classes and redistribution tends to be horizontal (between similar social classes) rather than vertical (between higher and lower social classes).

Table 2 lists countries according to their socioeconomic system. We see that all of the Northern European countries, with the exception of Germany, are social-democratic welfare states. Germany has a corporatist welfare state that is close to the social-democratic welfare state. The huge importance attributed to the family in Germany tips the scales towards corporatist system. However, Germany also has highly

---

<http://www.destatis.de/jetspeed/portal/cms/Sites/destatis/Internet/DE/Content/Statistiken/Aussenhandel/Handelspartner/Tabelle/Content100/RangfolgeHandelspartner.property=file.pdf>  
<https://www.cia.gov/library/publications/the-world-factbook/fields/2087.html>  
[http://www.stat.fi/tup/suoluk/suoluk\\_kotimaankauppa\\_en.html](http://www.stat.fi/tup/suoluk/suoluk_kotimaankauppa_en.html)  
[http://www.swedishtrade.se/PageFiles/170391/Exportstatistik\\_2009\\_eng.pdf?epslanguage=sv](http://www.swedishtrade.se/PageFiles/170391/Exportstatistik_2009_eng.pdf?epslanguage=sv)  
<http://www.dst.dk/>

influential trade unions, pursues an active labour market policy, offers high job security and devotes a great deal of attention to education. These are all characteristics of social-democratic welfare states.

	<b>Liberal</b>	<b>Corporatist</b>	<b>Social-democratic</b>
<b>Countries</b>	United States, Canada, Australia	Germany, France, Italy, Belgium	Netherlands, Denmark, Sweden, Norway and Finland

Table 2. Welfare states in different countries

Hall and Gingerich (2004) cluster countries according to their labour relations and the power and control of shareholders ('corporate governance'). In this context the dimension of labour relations is defined by the variables of system of wage coordination (national or sectoral), degree of wage coordination and labour market movements. We also discuss these variables in relation to the different types of welfare states. The dimension of 'corporate governance' refers to shareholder power, spread of power and the size of the stock market. The scores for these two aspects are plotted in relation to each other in Figure 2. In the top right corner of the graph we see a cluster to which our Northern European countries belong (the Netherlands is abbreviated as NTH). In the bottom left corner of the graph we find a cluster of Anglo-American countries (the US, the UK, Canada, New Zealand and Ireland). Hence the socioeconomic principles adopted by these countries are also very similar.

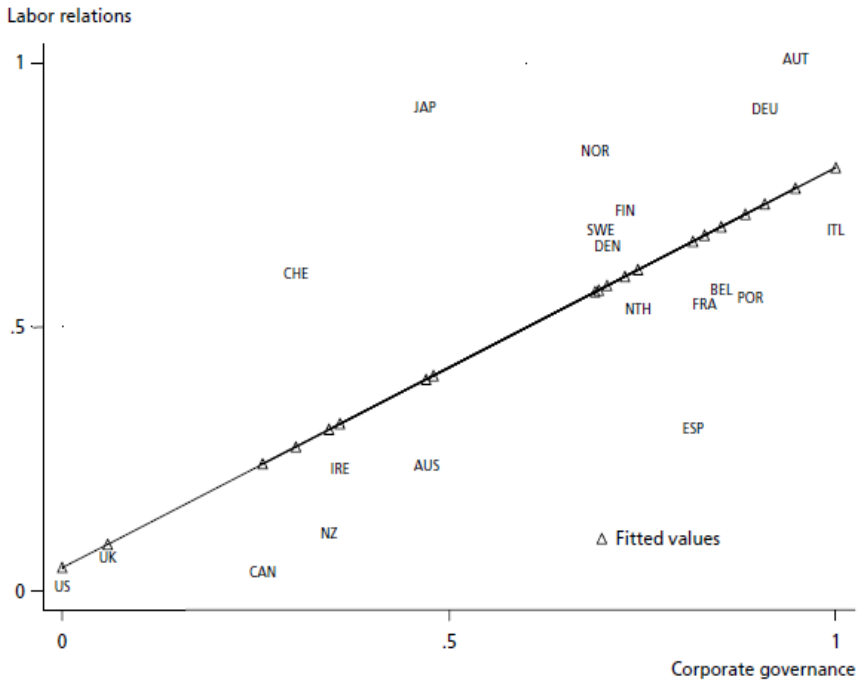


Figure 2. Clusters of countries grouped according to the variables of labour relations and corporate governance (source: Hall and Gingerich, 2004)

**The success of Northern European countries**

The above-mentioned similarities between the Northern European countries and the similarities in their approach have led these countries to experience considerable success, not only economically but also in the area of welfare.

Table 3 shows that the economies of these countries are performing well in terms of growth and inflation. Furthermore, in Appendix 1 we can see that the Northern European countries also rank highly on the World Economic Forum Global Competitiveness Index.

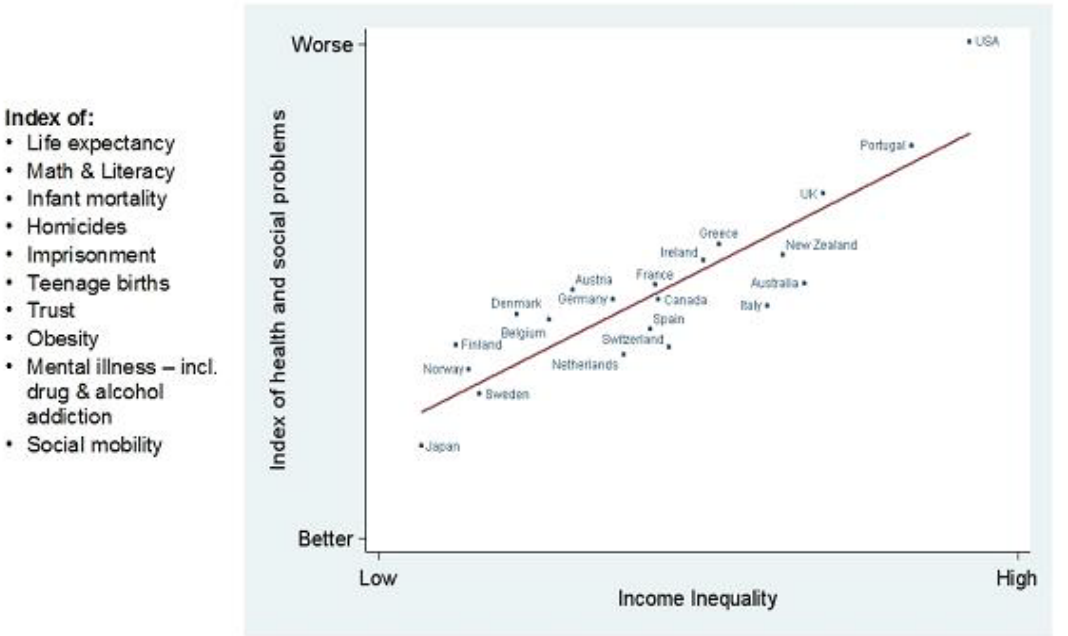
	GNP growth rate (estimate)			Inflation rates	
	2010	2009	2008	2010	2009
Netherlands	1.7%	-3.9%	1.9%	1.1%	1.2%
Denmark	1.8%	-4.7%	-0.9%	2.2%	1.3%
Norway	1.5%	-1.4%	1.8%	2.4%	2.1%
Sweden	4.1%	-5.1%	-0.6%	1.4%	-0.3%
Finland	2.1%	-8.1%	1%	1.1%	0%
Germany	3.3%	-4.7%	1%	1%	0.3%
France	1.6%	-2.5%	0.1%	1.5%	0.1%
Spain	-0.4%	-3.7%	0.9%	1.3%	-0.3%
Italy	1.1%	-5.1%	-1.3%	1.4%	0.8%
United Kingdom	1.6%	-5%	-0.1%	3.3%	2.2%
Ireland	-0.6%	-7.6%	-3.5%	-1.5%	-4.5%
Greece	-4.8%	-2%	2%	4.5%	1.2%
China	10.1%	9.1%	9%	5%	-0.7%
USA	2.8%	-2.6%	0%	1.4%	-0.3%

Source: <https://www.cia.gov/library/publications/the-world-factbook/index.html>

Table 3. Growth- and inflation rates in Northern and Southern European countries, China and the United States

Figure 3 shows that the Northern European countries all score very highly on the ‘Health and Social Problems’ index.

**Health and Social Problems are Worse in More Unequal Countries**



Source: Wilkinson & Pickett, *The Spirit Level* (2009)

[www.equalitytrust.org.uk](http://www.equalitytrust.org.uk) Equality Trust

Figure 3. Income inequality in relation to a number of social indicators (Wilkinsons and Pickett, 2009)

## 5. Companies in Northern European countries

Companies in Northern Europe operate in accordance with their own views and principles. These views and principles are informed by the concept of man and the moral and social views that are predominant in the Northern European countries. The principal corporate management model in Northern Europe is the Rhineland management model. In the management literature this model is contrasted with the Anglo-American model.

There are many different factors that can be used to compare the Anglo-American model with the Rhineland model. The factors listed in Table 4 are the ones used in our research. We used these factors to assess the megatrends and several of the associated developments that companies are now confronted with.

	<b>ANGLO-AMERICAN</b>	<b>RHINELAND</b>
Stakeholders	Shareholders take precedence	Focus on all stakeholders
Short-term/ long-term	Focus on results in the short term	Focus on the longer term
Profit/Value	Focus on profits and financial results	Focus on value creation
Trust	Contracts, rules and procedures, control	'Open' contracts and ample latitude, dialogue
Solidarity	Extrinsic motivation, company is a source of income/profit, leave if presented with a better offer	Conscious commitment to the (mission of the) company, collaboration, intrinsic motivation
Knowledge	Knowledge is a source of power and is guarded	Knowledge is shared, knowledge is a source of innovation and independent decisions
Expertise	Functions are divided into sub-tasks	Expertise is an important resource for the company and is applied and can develop
Management	Based on rigid rules and procedures	Based on the mission and vision and on values and standards
Coordination	Top-down management, vertical communication	Coordination by those on the work floor, horizontal communication
Labour relations	Temporary, often short-term employment contracts	Permanent employment contracts, employees are able to develop their skills within their role

*Table 4. Characteristics of the Anglo-American and Rhineland models*

The megatrends and associated developments examined by our research include flexibilisation as a response to globalisation, corporate social responsibility, participation in (temporary) networks when working on co-creation and open innovation projects, Smarter Working, New Ways of Working and the impact of social media on views on the organisation of labour and companies. The results are shown in Table 5.

	Flexibility*	CSR	Innovation in networks	Smarter working	New Ways of working	Social media, organisation
Stakeholders		RL	RL <sup>***</sup>	RL	RL	RL
Short-term/ long-term		RL	AA/RL	AA/RL	AA/RL	RL
Profit/Value		RL	RL	AA/RL	AA/RL	RL
Trust	RL	RL	RL	RL	RL	RL
Solidarity	RL	RL	RL	RL	AA/RL	RL
Knowledge	RL	RL	RL	RL	RL	RL
Expertise	RL	RL <sup>**</sup>	RL <sup>***</sup>	RL	RL	RL
Management	RL			RL	RL	RL
Coordination	RL	RL <sup>**</sup>	RL <sup>***</sup>	RL	RL	RL
Labour relations	AA/RL	RL <sup>**</sup>	AA/RL	RL	AA/RL	AA

\* Does not apply to companies in low-complexity and low-dynamic environments.

\*\* Applies in principle to labour in Western countries.

\*\*\* Relationship with customers and responsibility and freedom of employees are especially important in the case of co-creation.

**RL:** Very similar to Rhineland principles.

RL: Similar to Rhineland principles.

AA/RL: Anglo-American and Rhineland approaches are both possible.

AA: Similar to Anglo-American principles.

**AA:** Very similar to Anglo-American principles.

Blank spaces: It is not possible to make a statement regarding the development in question with regard to this aspect.

*Table 5. Effectiveness of the Rhineland and Anglo-American models in supporting the confrontation with current developments in the corporate environment*

In Table 5 we can see that, in most cases, in order to respond effectively to business-relevant developments companies need to operate in accordance with Rhineland principles. We can also see that in certain instances companies can choose whether to adopt an Anglo-American or Rhineland approach ('AA/RL' sections of Table 5). For example, companies can use Smarter Working and New Ways of Working to maximise profit in the short term. However this may undermine factors such as employee loyalty to an organisation (Solidarity) and the maintenance and development of Expertise. Furthermore, it is difficult to combine (the necessity of) operating in accordance with Rhineland principles in relation to some aspects with operating in accordance with Anglo-American principles in relation to other aspects. We draw the conclusion that the megatrends and associated developments we have described call for a method of organisation that needs to be strongly rooted in Rhineland principles. Companies that operate in accordance with these principles are better equipped to meet the challenges presented by the megatrends.

Rhineland principles also provide more freedom for individual stakeholders. Individual employees have considerable influence and greater freedom (flexibilisation, co-creation, Smarter Working, New Ways of Working and social media). They commit to working for companies for shorter or longer periods on the basis of an alignment between their own interests and objectives and the mission and objectives of companies and/or projects. Different stakeholders align their interests and form agreements based on their interests, sometimes for the duration of a particular project and sometimes for a longer period. The rapid changes now taking place mean that the duration of collaborative alliances is becoming shorter.

### **The success of companies that operate in accordance with Rhineland principles**

Companies that operate in accordance with Anglo-American principles score well when it comes to productivity, returns, profits and shareholder value in the shorter term. However, over the longer term, companies that operate in accordance with Rhineland principles often score better. This has been confirmed by many studies, several of which are mentioned below.

Over the period from 1926 to 1990, the 'cumulative investment gains' of the 'visionary companies' described by Collins and Porras (2000) were sixteen times higher than the market average. 'Visionary companies' are characterised by a clear mission, strong principles and the determination to contribute to society. They take small steps when introducing changes and innovations (emergent strategy), believe in the personal initiative displayed by employees and invest in their employees.

O'Reilly and Pfeffer (2001) reviewed numerous studies and concluded that companies that put their employees first, invest a great deal in education and training, also issue bonuses to 'ordinary employees', operate as a team and strive to provide job security produce and deliver higher quality, have a lower staff turnover rate, are able to reduce costs which results in higher productivity, achieve higher revenue growth, are more profitable and have a lower business failure rate. Their report of their own study of successful companies with a strong competitive position (the criteria are not entirely clear) presents the following picture: the companies described in the study are successful because they have formulated a strong and clear corporate culture that forms the basis for their activities, they invest in people, they are open in providing information, they operate in teams, and they reward people for and acknowledge sound performance.

Nohria et al. (2003) looked at returns on investments over the longer term, in this case a period of 10 years. Companies that score highly in relation to this criterion are companies that have a great deal in common with the characteristics of the Rhineland approach in terms of strategy, operational implementation of structure, culture and leadership.

A study of Dutch companies during the period from 1992 to 2006 conducted by Bezemer (2010) shows that the returns of listed companies that sought to maximise shareholder value in the short term (in other words companies that apply Anglo-American principles) were 17% lower than the returns achieved by companies that did not adopt this approach (i.e. companies that were more aligned with the Rhineland principles).

Companies oriented more towards the Rhineland model also gain higher scores for 'softer indicators' such as sickness absence, staff turnover, motivation, expertise, quality of products and services, customer satisfaction, supplier relationships and environmental protection (De Sitter, 1981, Peeters, 1995, Heskett et al., 1997, De Waal, 2008, Kuipers et al., 2010).

We can conclude that companies that are organised in accordance with Rhineland principles are as successful as 'Anglo-American' companies from an economic point of view. If we consider social criteria we see that Rhineland companies gain noticeably better scores than 'Anglo-American companies'.

## 6. Northern European as a role model in a globalising economy

We conclude that Northern Europe has something to be proud of. Its society and its companies maintain sound social relations that have a positive impact on the innovation climate, the training level of employees (especially in the case of middle groups of employees) and the collaboration between social partners. At the same time this is also the Achilles heel of the region.

There is widespread complaint that the existing socioeconomic relations stand in the way of essential changes in the economic structure and complicate the decision-making process. The introduction of market thinking in the eighties was prompted partly by the desire to do something to reduce the complexity of the decision-making process. Yet it is highly questionable whether this aim has been achieved. It sometimes seems that market thinking, deregulation and privatisation have simply added to the complexity and inflexibility. We therefore call for a reevaluation of the societal and entrepreneurial principles embraced by the Northern European countries. Northern European problems need to be resolved in a Northern European way. There are enough best practices within these countries and their companies to prepare our region for the future.

We have shown where and why Northern Europe is able to compete in the globalising economy. Northern European societies and companies both have something to offer on a global scale. The region's strengths need to be further developed and consciously communicated. And the process of conscious communication means that, as well as knowing what needs to be changed – in order to make more flexibility possible for example, we also know what we can be proud of and what others can learn from Northern Europe.

Is the Northern European model a sustainable model that can be applied in the global economy? The answer to this question is a resounding yes. Northern Europe knows how to link the solidarity and trust based on its socioeconomic principles to economic and social success. This is accomplished through individuals, companies and institutions being allowed to self-organise to a large extent. This creates scope for (self-)reflection and continual improvement.

### **Northern Europe, characteristics and success factors**

In recent decades market thinking has determined the thinking about the economy and enterprise in Northern Europe. Globalisation and technological development have meant that countries and companies can no longer confine their organisation to a national level. Market thinking appears to be able to provide a solution, yet it clearly falls short. Problems such as sustainability and the consequences of technological innovation cannot be resolved by rigid market thinking. A Northern European approach to the economy offers more possibilities. In placing excessive emphasis on regulations, contracts, command, control and standardisation market thinking results in rigidity. Northern Europe is better prepared to meet these challenges because it places the emphasis on collaboration and consultation in networks and companies, which means that trust plays a significant role.

It is important for Northern European entrepreneurs to value their collaborative approach. However this should not be interpreted as a call for the restoration of a traditional regime. It is necessary to bring greater self-awareness and critical reflection on principles to bear in responding to the changing globalising economy.

Governments need to promote regional collaboration and operation within the context of collaborative alliances or clusters in all bodies of society. They also need to promote the engagement of individual actors in relation to each other, to create conditions and to support bottom-up initiatives.

Companies benefit from the development of regions and clusters because this facilitates innovation and the development of innovative capacity. They also need to engage in activities that actively contribute to



regions and clusters and help to develop a collaborative culture. If collaboration transcends national borders, companies no longer fall under a single legislative system and simple rules. Companies in this situation will have to reach agreements and establish mutual regulations with the parties involved. The Northern European countries can learn a great deal from each other in the areas of knowledge development, education, social security legislation and collaboration between social parties: Germany is an exemplary country in the area of education, Finland provides an example of how to facilitate knowledge development and innovation, Denmark is achieving positive results with its flexicurity (flexible labour market) system, the Netherlands has the most advanced system when it comes to consultation between the social partners, and Sweden is an example of a system that protects individual interests and social security while also fostering the achievement of socioeconomic success.

### **Reflective network model**

Our rapidly changing world is making flexibility a critical requirement for companies, governments and knowledge institutions. Management models that rely solely on legislation, rules, contracts and standardisation eventually turn out to be too inflexible.

Our era calls for management models built on the basic philosophy of 'reflection' - models that create scope for the alignment of individual and collective interests. Individual institutions, companies and employees cannot be judged purely on the basis of their individual performance: their performance also has to be considered in relation to the organisation and society in which they operate, to which they contribute and on which they depend. Employees, entrepreneurs, managers and policy-makers must always take this into consideration when making decisions. There are no unequivocal guidelines. Similarly, individual parties cannot hide behind their own limited individual interest: they too must consider the consequences for the collective. Entrepreneurs, trade unions, employees, politicians and individual citizens have a tendency to make decisions from a limited perspective that is confined to their own interest. Society and companies must ensure that they continually seek to productively exploit the tension between individual and collective interests. The Northern European business model shows how this can be done.

Serious attention is devoted to the tension between individual and collective interests within the Northern European model because institutional consultation occurs or is organised between the government, social institutions, companies and employees. Now the challenge is to continue to maintain and develop these consultative relationships in the future. The government must create the conditions that make this possible. It must also promote and possibly organise and – in view of the requirements imposed by the time in which we live – also help to develop these consultative relationships (Borgman, Loose, Pieper, 2008, Blond, 2010, and Pieper, 2010). Modern communication technology has a crucial function in this process. The use of this new technology is already enabling people and companies to organise their activities in different ways, through engaging in co-creation and open innovation, Smarter Working and New Ways of Working for example.

In this era of individualisation it is important that ideas and initiatives emerge from the bottom up and that the government and leaders within companies serve primarily in a supportive and facilitative capacity in this respect.

## Appendix I. Global Competitiveness Index Ranking 2010/2011 (WEF, 2010)

Country/Economy	GCI 2010–2011		GCI 2010–2011 rank among 2009 countries	GCI 2009–2010 rank *	Country/Economy	GCI 2010–2011		GCI 2010–2011 rank among 2009 countries	GCI 2009–2010 rank *
	Rank	Score				Rank	Score		
Switzerland	1	5.63	1	1	Kazakhstan	72	4.12	71	67
Sweden	2	5.56	2	4	Peru	73	4.11	72	78
Singapore	3	5.48	3	3	Namibia	74	4.09	73	74
United States	4	5.43	4	2	Morocco	75	4.08	74	73
Germany	5	5.39	5	7	Botswana	76	4.05	75	66
Japan	6	5.37	6	8	Croatia	77	4.04	76	72
Finland	7	5.37	7	6	Guatemala	78	4.04	77	80
Netherlands	8	5.33	8	10	Macedonia, FYR	79	4.02	78	84
Denmark	9	5.32	9	5	Rwanda	80	4.00	n/a	n/a
Canada	10	5.30	10	9	Egypt	81	4.00	79	70
Hong Kong SAR	11	5.30	11	11	El Salvador	82	3.99	80	77
United Kingdom	12	5.25	12	13	Greece	83	3.99	81	71
Taiwan, China	13	5.21	13	12	Trinidad and Tobago	84	3.97	82	86
Norway	14	5.14	14	14	Philippines	85	3.96	83	87
France	15	5.13	15	16	Algeria	86	3.96	84	83
Australia	16	5.11	16	15	Argentina	87	3.95	85	85
Qatar	17	5.10	17	22	Albania	88	3.94	86	96
Austria	18	5.09	18	17	Ukraine	89	3.90	87	82
Belgium	19	5.07	19	18	Gambia, The	90	3.90	88	81
Luxembourg	20	5.05	20	21	Honduras	91	3.89	89	89
Saudi Arabia	21	4.95	21	28	Lebanon	92	3.89	n/a	n/a
Korea, Rep.	22	4.93	22	19	Georgia	93	3.86	90	90
New Zealand	23	4.92	23	20	Moldova	94	3.86	n/a	n/a
Israel	24	4.91	24	27	Jamaica	95	3.85	91	91
United Arab Emirates	25	4.89	25	23	Serbia	96	3.84	92	93
Malaysia	26	4.88	26	24	Syria	97	3.79	93	94
China	27	4.84	27	29	Armenia	98	3.76	94	97
Brunei Darussalam	28	4.75	28	32	Mongolia	99	3.75	95	117
Ireland	29	4.74	29	25	Libya	100	3.74	96	88
Chile	30	4.69	30	30	Dominican Republic	101	3.72	97	95
Iceland	31	4.68	31	26	Bosnia and Herzegovina	102	3.70	98	109
Tunisia	32	4.65	32	40	Benin	103	3.69	99	103
Estonia	33	4.61	33	35	Senegal	104	3.67	100	92
Oman	34	4.61	34	41	Ecuador	105	3.65	101	105
Kuwait	35	4.59	35	39	Kenya	106	3.65	102	98
Czech Republic	36	4.57	36	31	Bangladesh	107	3.64	103	106
Bahrain	37	4.54	37	38	Bolivia	108	3.64	104	120
Thailand	38	4.51	38	36	Cambodia	109	3.63	105	110
Poland	39	4.51	39	46	Guyana	110	3.62	106	104
Cyprus	40	4.50	40	34	Cameroon	111	3.58	107	111
Puerto Rico	41	4.49	41	42	Nicaragua	112	3.57	108	115
Spain	42	4.49	42	33	Tanzania	113	3.56	109	100
Barbados	43	4.45	43	44	Ghana	114	3.56	110	114
Indonesia	44	4.43	44	54	Zambia	115	3.55	111	112
Slovenia	45	4.42	45	37	Tajikistan	116	3.53	112	122
Portugal	46	4.38	46	43	Cape Verde	117	3.51	n/a	n/a
Lithuania	47	4.38	47	53	Uganda	118	3.51	113	108
Italy	48	4.37	48	48	Ethiopia	119	3.51	114	118
Montenegro	49	4.36	49	62	Paraguay	120	3.49	115	124
Malta	50	4.34	50	52	Kyrgyz Republic	121	3.49	116	123
India	51	4.33	51	49	Venezuela	122	3.48	117	113
Hungary	52	4.33	52	58	Pakistan	123	3.48	118	101
Panama	53	4.33	53	59	Madagascar	124	3.46	119	121
South Africa	54	4.32	54	45	Malawi	125	3.45	120	119
Mauritius	55	4.32	55	57	Swaziland	126	3.40	n/a	n/a
Costa Rica	56	4.31	56	55	Nigeria	127	3.38	121	99
Azerbaijan	57	4.29	57	51	Lesotho	128	3.36	122	107
Brazil	58	4.28	58	56	Côte d'Ivoire	129	3.35	123	116
Vietnam	59	4.27	59	75	Nepal	130	3.34	124	125
Slovak Republic	60	4.25	60	47	Mozambique	131	3.32	125	129
Turkey	61	4.25	61	61	Mali	132	3.28	126	130
Sri Lanka	62	4.25	62	79	Timor-Leste	133	3.23	127	126
Russian Federation	63	4.24	63	63	Burkina Faso	134	3.20	128	128
Uruguay	64	4.23	64	65	Mauritania	135	3.14	129	127
Jordan	65	4.21	65	50	Zimbabwe	136	3.03	130	132
Mexico	66	4.19	66	60	Burundi	137	2.96	131	133
Romania	67	4.16	67	64	Angola	138	2.93	n/a	n/a
Colombia	68	4.14	68	69	Chad	139	2.73	132	131
Iran, Islamic Rep.	69	4.14	n/a	n/a					
Latvia	70	4.14	69	68					
Bulgaria	71	4.13	70	76					

(Cont'd.)

\* The 2009–2010 rank shown is the one published last year out of 133 countries. One country that was included last year, Suriname, has been excluded this year for lack of survey data. Suriname's rank of 102 from last year is therefore not shown in the table.



