Business Renewal in the Nordic Countries – Adapting to the Globalised Economy through Experimental Use of Institutional Resources

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1 Introduction

Nordic countries have in recent years attracted attention due to their dynamic adaptability to the globalised economy. From the perspective of the literature on ‘Variety of Capitalism’ this type of adaptability can be characterised as a surprising outcome. Institutional complementarities and strong inter-linkages between various stakeholders are seen to cause inertia, and have less capacity for the reshuffling of resources necessary for radical innovation. Instead non-market forms of coordination are seen to support only incremental innovation. Thus the current dynamic in the Nordic countries challenges the inertia thesis related to non-market coordination mechanisms. The purpose of this paper is to explore how three Nordic coordinated market economies have adapted to the new economy. The overall finding is that the Nordic countries have reshaped their national business systems by transforming their coordinated system of governance. Instead of centralized modes of coordination, governance has been decentralized to various sub-systemic levels of action. In this way the Nordic countries have reproduced distinguishing governance mechanisms to the extent that it makes sense to still characterize them as coordinated market economies.

For exploring the transformation of the Nordic countries the paper takes a dynamic view of firms as a point of departure (Morgan 2005) in the tradition of actor-centred institutionalism (Hancké 2002). In developing new patterns of action – renewing their business, firms have contributed to the reshaping of institutions. Mechanisms that have made co-evolution possible are linked with the dismantling of the centralized governance systems. Thus institutional adaptability at the national level has been accomplished by decentralizing governance mechanisms. Decentralization has opened up for new experimental modes of governance as well as new social spaces for bottom-up initiatives. These situations have opened up for the tailoring of institutional resources to distinct new needs on the one hand. On the other hand, experimental modes of governance in the systems of work organization and industrial relations, national innovation systems, and higher education systems have enabled firms to take risks and seize new windows of opportunities linked with decentralized mode of operation in the globalized economy. To the extent that tools for risk sharing between firms and institutional arrangements emerge and have rendered successful outcomes, new complementarities between the public and private sectors have developed. Due to their capacity for change we call the new structural fit dynamic complementarities. These are to be seen as a key mechanism for change in national business systems.

The argument presented refers to similarities in the Nordic countries. Realizing that the Nordic countries vary along a wide set of dimensions, the paper will take this into consideration in a comparative analysis of three of them: Finland, Norway and Sweden. One objective of the comparative analysis is to increase the validity of our complementary argument. Dynamic complementarities cannot be measured, but must be justified through inductive reasoning and evidence preferably collected from a wide set of perspectives and sub-systemic contexts. Based on secondary sources and company level case studies (that are not documented here), our working hypothesis is that
complementarities between various types of actors and subsystems can be turned into a dynamic mode rather than creating lock-ins under two interlinked conditions:

(1) if the national business system is competent enough to detect relevant focal actors for periodically changing systemic conditions and
(2) if institutional resources are adapted through policy making processes to provide risk sharing mechanisms for periodically relevant focal actors.

In designing the study we have analysed the adaptation of the Nordic countries in two separate phases. The first one starts in the early 1990s and the second one after the turn of the century. During the first phase national champions that turned into isolated hierarchies and/or flagship companies became the focal actor. New ways of operation required new forms of risk sharing that were facilitated through institutional adaptation. These transformed companies replaced established focal actors that were embedded in the web of fixed economic power structures that made up the key elements of post war coordinated economies. After the turn of the century the focal actors of the 1990s were replaced by what we term front-liners that are linked to companies’ pressure to constant redefine their role in global value constellations.

The second section will elaborate on the first phase starting around 1990 by accounting for processes of business renewal and institutional adaptation respectively, the third section will take into account changes in the contextual environment of firms, the fourth section will elaborate on the second phase by pointing to new modes of operation and processes of institutional adaptation, and section five will discuss the implication of focal actors, risk sharing, and dynamic complementarities for the three countries in question before concluding.

2 Opening up for the globalized economy in the 1990s: business renewal and institutional adaptation

The dynamic character of the Nordic countries started to attract attention after the turn of the century. Their reorientation had started at an earlier point of time, and with particular strength after 1990 as a result of the major economic crises in both Finland and Sweden. In all the three countries fixed economic power structures beyond individual companies, such as bank based coordination in Sweden and Finland and, state based coordination in Norway, were gradually abolished. In the post war national economies these power structures were key instruments for coordinating the Nordic market economies. The dismantling of these power structures co-evolved with processes of business renewal to the extent that several sub-systems such as the finance system and the role of the state changed. Main drivers in these processes were several national champions that speeded up their internationalization process. In successful cases these champions achieved capacity to act as isolated hierarchies in relation to former power structures as did state owned companies that were privatized or relieved from their commitments to regional policy and employment missions in peripheral localities as were typical in the Norwegian case. Simultaneously, the inward flows of FDI increased substantially, particularly in Sweden and Finland. A vital part of these restructuring processes were an increased focus
on core competences. In this respect Nordic companies emulated global managerial trends and business strategies.

Business Renewal

We have to stress, though, that at in the early 1990s a large number of Swedish companies particularly, had achieved a high international presence at an earlier point of time, already in the 1960s. The accumulated managerial and entrepreneurial experience from this early phase of internationalization came to function as a sort of ‘management school’. This accumulated experience facilitated the further widening of industrial and commercial businesses. To these new and quickly growing companies can be mentioned IKEA and Hennes & Mauritz, Tetra Pak, Gambro, Oxgene, Assa Abloy, Autoliv, Getinge, Gant, Hägglunds Drives AB.

The internationalization process had a similar effect in Finland where a widening of the sectoral specialization took place. The Nokia story is revealing in this respect. Within less than a decade the ICT sector grew to the extent that it surpassed the forest sector as the biggest export sector. But it should be mentioned that the ICT sector was not the only one to transform the national economy. The forest industry companies followed suit, and entered on an aggressive internationalization strategy. For instance, in 2001 StoraEnso, the merged Finnish-Swedish forest industry giant, had the largest production capacity of pulp and paper products in the world.

Companies in Norway by contrast to companies in both Sweden and Finland internationalized to a lesser extent. Nor was Norway subject to strong inward flows of FDI. Additionally, Norwegian companies that internationalized behaved more like isolated hierarchies and instead of developing a flagship role as was particularly the case of Finland and Nokia. A salient example is the pulp and paper company Norske Skog that as a result an aggressive internationalization strategy made it the most globalized company in its sector and the second largest newsprint producer in the world. By the end of the 1990s the company had operations on five continents (Moen and Lilja 2001). However, most of the other companies that internationalized rather continued their practice as diversified corporations with unrelated businesses as in the case of Norsk Hydro and Kvaerner. This meant that core competences were not a platform for internationalization, nor a future focus for further investments. Thus, company strategies’ in Norway gave fewer stimuli to the renewal of the business system than in Finland and Sweden. However, the decision to turn Statoil, the state owned oil company, into an international player in 1990 had ramification for parts of the Norwegian economy in the long term perspective. Particularly due to the fact that supplying industries were told to internationalize at the same time. They were no longer to be privileged by national oil companies, and the changed relationship between oil companies and supplier companies forced supplier companies to search for alternative modes of operating. For these reasons Norway did not widened her sectoral specialization as Finland and Sweden did during this phase of globalization.
Table 1. Business renewal in the 1990s

<table>
<thead>
<tr>
<th>Core processes of renewal at the business level</th>
<th>Finland</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internationalization of national champions</td>
<td>Substantial breakthrough</td>
<td>Less, a few breakthroughs</td>
<td>Continued with a wider scope</td>
</tr>
<tr>
<td>Inward flows of FDI</td>
<td>Substantial, leading to shake-ups of multidivisional companies</td>
<td>Less</td>
<td>Substantial, leading to shake-ups of multidivisional companies</td>
</tr>
<tr>
<td>Focus on core competences</td>
<td>As a platform for internationalization and for on-going renewal</td>
<td>Less</td>
<td>For expanding linkages to centres of excellence globally</td>
</tr>
<tr>
<td>Privatization of state owned companies</td>
<td>Stepwise privatization process</td>
<td>Less, part-privatization</td>
<td>Yes</td>
</tr>
<tr>
<td>Increasing scope of sectoral specialization</td>
<td>From forest sector to ICT sector</td>
<td>None</td>
<td>Widened to include consumer products</td>
</tr>
</tbody>
</table>

Thus, the business renewal in the 1990s led to different outcomes in Finland, Norway, and Sweden. In Finland and Norway this phase represented a break-through as to internationalization of business whereas in Sweden the internationalization process had taken place earlier. In Sweden the 1990s represented an intensified internationalization of large companies with remarkable high outwards flow of FDI. The different outcomes refer to the inclusion of the wider national business system into the global arena. Whereas successful internationalization led to a widening of the scope of sectors in both Finland and Sweden, it did not in Norway. On the contrary, during the 1990s Norway developed to become more of a mono-cultural economy based on oil and gas.

Institutional Adaptation

The fact that business renewal had varied outcomes in the three countries calls for an explanation when we consider the relative commonalities of their institutional set-ups in the post war period. With little variation all the three countries had common ways of controlling and coordinating the economy beyond individual companies. The control and coordinating institutions included strong macro-economic regulation, neo-corporatist regime of industrial relations, bank groups together with active states. The main variation is that bank groups played an insignificant strategic role in Norway where state based coordination prevailed. Yet, the point to be made is that the successful renewal of businesses was linked to parallel adaptation of institutional set-ups.
A significant step in changing institutional arrangements occurred when national champions internationalized and took on a path breaking role in the national context. Taking new risks required the support of various institutional sources at both the transnational and national level. At the national level this claim led to a redirection of existing resources to new goals. Stepwise this push led to a redesign of institutional arrangements as well as the establishment of new ones. However, the redesign of institutional arrangements was done differently in the three countries and the variation in outcomes can be linked to the extent that dynamic complementarities came into existence.

Finland

In Finland the bank group based operation came to an end by the mid-1990s (Tainio and Lilja 2003). The bankruptcy of a major bank and solidity crises of many others led to the restructuring of the banking system. With the national financial system in crisis the industrial companies turned to international financial markets and in this way got access to risk capital. Another source of risk capital was made available when the government in 1993 deregulated the restriction on foreign ownership of listed companies and the market for corporate control was opened. As a consequence foreign equity capital started to flow into the Finnish stock market. By the end of the 1990s more than 70 per cent of the stocks at the Helsinki Stock Exchange were foreign owned. This was a striking increase in a few years time, but it has to be admitted that the growth was strongly linked to increase in the market capitalization of Nokia. Foreign equity capital helped also diversified companies to divest unrelated business units to foreign MNCs and concentrate their growth in businesses where their core competence resided. These chains of event led to the abolishment of bank spheres of interest. When also the state started to privatise state owned companies and stopped to use them as additional tools for regional policy, a large amount of national champions got leeway to internationalise their operations. The internationalisation occurred, with few important exceptions, through mergers and acquisitions.

The public and private sectors had already in the 1980s started to develop national innovation policies together and distinct governance institutions had been set up. When the effects of the recession in the 1990s were especially dramatic for the Finnish economy it is a great surprise that the government made a decision to increase funding for R&D, even though the state budget was at a deep deficit. In addition, a major reform in the tertiary level of educational system was initiated. 29 universities of applied sciences (polytechnics) were established by merging existing occupational education institutes and upgrading their educational programmes. By allocating public finance to the national system of innovation was very much in line with the suggestions of the companies and the lobbying of elite professions (Moen and Lilja 2005).

During the 1990s, centralised macro-economic regulation was still continuing. To support national champions, the state had to devaluate the Finnish currency in 1993. This, however, aggravated the banking crisis as borrowing from foreign countries had been liberalised. Large numbers of SMEs could not pay back their loans and went bankrupt.
At the bottom of the economic recession unemployment reached to 20 %. The macro-economic instability gave all centralised interest organisations and the government an incentive to continue the making of centralised incomes policy agreements with moderate wage increases (Lilja 1998). Such agreements were a tool to give predictability for cost levels and inflation on a longer term. Heavy losses, shut downs of plant and downsizing in the metal industry made the most influential labour union willing to enter at the workplace level to experiments that increased functional flexibility in jobs and facilitated flexible working time arrangements. This was a major breakthrough in making working life reforms. But the high level of unemployment reached during the recession implies that the public sector could not intervene to the labour market and help absorbing employees who were pushed away from work.

Finland joined the EU in 1995 and the European Economic and Monetary Union (EMU) in 1998. Both of these decisions meant that considerable amount of decision-making power was released from the government. Joining the EMU meant that devaluations were taken out of the macro-economic toolbox. This move was finalised by adopting the Euro. Fortunately, the emerging ICT sector and its internationalisation stimulated the national economy and drew Finland out of the recession by the turn of the millennium.

Norway

The fact that the state discontinued its policies for intervening directly in industrialization processes presents a dividing line as to systemic change in Norway. In the post war period the state ran by the social-democrats had high ambitions in industrializing Norway. This took place first and foremost in the shape of establishing and running different companies that were to serve as models for the private sector. In addition industrialization was to be supported by a selective industrial policy, i.e. specific branches and companies received different forms of state support and subsidies. The so-called favourite sectors were the energy-intensive process industries, also nick-named the energy socialism. Finally, industrialization was also steered through credit regulation and the concession law system. When oil was discovered in the North Sea around 1970, the state established a national strategy project in order to be able to control the oil incomes. The strategy for securing control was to develop competence at the national level for keeping operations under national control. Competence was developed by favouring Norwegian companies in different activities connected with the production of oil and gas.

This sort of state-led industrialization came to a halt in late 1980s. First, the Norwegian economy had been through a highly volatile period since the late 1970s giving the impression that the tight economic regulation did not work. Secondly, there was an ideological shift in the social-democratic party towards a market oriented policy for regulating the national economy. The combined effect of these two factors was decisive for changing the different roles of the state in the economy and the wider national business system. The first step was to dismantle the state industrial companies. Apart from a few examples that were sold out, these companies were closed down. In the same vein the state deregulated infrastructure sectors such as energy and telecommunication, and opened up for privatization of key state companies in these.
As a second step industrial policies were changed towards transparent market based operations. The state relegated its role to macro-economic regulation and left micro-economic regulation to the market. As it was then phrased ‘the market is the best regulator of business’. This meant that the state abandoned its so-called selective industrial policy. As part of this reorientation the national project for developing the oil industry was abolished in 1990. In order to secure a future for the Norwegian shelf, a new strategy was launched. This involved creating a level playing field for both national and foreign oil companies. From this point of time both national oil companies and national supplier companies were to be given assignments only through open competition and not through a system privileging national operators. In other words they had to become internationally competitive, and the means to become competitive was to invent new ways of designing projects and technologies. In the wake of these market oriented policies state companies such as Statoil and Telenor were part-privatized and publically listed. At the same time as the state adopted a regulatory role and left strategic decision-making to companies implied that companies were allowed to act as isolated hierarchies relieved of their socio-economic missions.

The dismantling of the state’s active role in business was followed by a shift in the priority of the overall economic policies. Until the 1980s credit regulation had been a key steering tool. When this was done away, the state chose to concentrate on the regulation of the exchange rate as the main tool not only for macro-economic regulation, but as a main tool for its overall economic policies. Thus, with the reduction of the repertoire of macro-economic tools as well as tools for industrial or innovation policies, the economic policy came to hinge on the regulation of the exchange rate. Reducing economic policies to mainly macro-economic regulation at the same time meant a clear prioritizing of the economic policy on which the national economy was to be based. In practice this focus came to revolve around the issue of budget balance. The argument given for this priority was to avoid inflation. Institutional arrangements were typically changed in order to support this new policy orientation. The mandate to regulate the interest rate was transferred from the parliament to the Ministry of Finance. When capital started to accumulate in the Oil Fund in 1996, which had formally been established in 1990, this policy orientation became increasingly more entrenched within the central administration and the polity.

The way economic policies was re-orientated in Norway diverged strongly from the new course of economic policies that were implemented in both Finland and Sweden. During the 1990s both these countries changed their economic priorities to include innovation policies in addition to macro-economic regulation. Norway went in the opposite direction, and actually cut back her investments in industrial R&D. Thus, instead of extending her economic policy priorities, Norway sized down the policy repertoire to the extent that also other policy areas and coordination measures were subsumed to support the overall goal of budget balance. This concerned particularly the centralized wage bargaining system. In copying with the economic crisis and increasing unemployment in the early 1990s, this institutional arrangement was rendered increased importance. Its centrality was formalized through a tripartite agreement in 1992 known as the Solidarity
Alternative. It should be stressed that the Solidarity Alternative was not complemented by lifelong learning policies, although moderate wage formation was sold with reference to this sort of compensation. Moreover, in line with a commonly accepted way of understanding competitiveness, moderate wage increases were to improve competitiveness of companies and support the creation of jobs. In this way the policy of moderate wage increases was also to function as a sort of industrial policies.

Sweden

In Sweden, the 1970s became the decade of industrial crises which were measured by a lot of ‘economic engineering’ as usual. By the beginning of 1980s, the social democrats returned to cabinet and devaluated immediately the currency, which in combination with an international boom resulted in a seven year flourishing period. This conserved old industrial structures, and Sweden was therefore badly prepared for the crisis to come in the 90s.

By the beginning of the 1990s, Sweden had full employment; more or less everybody who wanted and could work had a job. Suddenly however, Sweden was thrown into a real estate crisis; a ‘property bubble’ had been developed due to banks’ over-financing and commercial tenants’ inability to pay the bills. This developed a severe bank crisis; one bank went broke and some others were close to, which forced the Government to establish a ‘bank emergency’. The bank crisis in combination with a general international recession caused the whole Sweden a severe industrial crisis, which also was followed by a political one. The root of the crisis of the 90s is to be found in the cost inflation crisis of the 70s, which to a large extent depended on a huge housing program due to an extraordinaire moving in into the Stockholm-area (Feldt 1991). The program requested low interests as the living was to be subsidised, which in turn implied regulated interests; concurrently, the social democratic Government had the goal of full employment.

Furthermore, the crises of the 1990s brought up shortcomings of the famous Swedish Model (as it also had done after the crises of the 1970s); not only the housing but also the whole public sector seemed to be too much subsidised; the industrial Sweden was dominated by a ‘big company-perspective’, while labour and financing reforms for small- and medium sized enterprises (SME) had been neglected, and earlier crises had been measured by bridging policies and devaluations. Sweden was not considering to joining EU, and had voted for phasing out nuclear power by the year 2010. Also, in 1982 the left-wing Government had imposed the so called ‘employees’ funds’; certain companies’ were ordered to pay extra tax on ”excess-profits”, which was considered as a huge confiscation of shareholders’ assets and would result in a so called ’fund socialism’ within some decades. This single event was regarded like firing a broadside against the specific mentality of the compromise thinking in the Swedish Model, and the employers’ federations started withdrawing from cooperation like centralised agreements and representations in different societal organisations. The Swedish institutions were regarded being uncompetitive (Myhrman 1994), and the fact that 47 HQs belonging to the Swedish national champions and well-known brands were moved abroad during the period 1997-2001 was just one evidence for that. The location of HQs is important because that is
where the ‘apex competence’ is developed, the cooperation with other knowledge-intensive sectors is decided on, and HQs are therefore attracting the greatest talents. In general, the HQ is an important node in the ‘knowledge-society’, and constitutes therefore a fundamental for economic growth in the country. And concurrently, in principle no HQs were moved into Sweden, or no bigger investments were done there (Braunerhjelm 2001).

Further, Swedish companies were implementing huge outwards flow of FDIs in Europe, for instance the forest industrial company, MoDo, developed to a European giant through acquisitions (Peterson 2001). The Swedish Model, renowned already in the 1930s as the Middle Way, a sufficient combination of capitalism and socialism, was really doubted, and in order to start restoring the Swedish institutions, the social democratic Prime Minister applied for membership in the EU. However, Sweden said no to Euro in a referendum 2003.

A right-wing Government was founded in the autumn of 1991 and dismantled immediately the ‘employees’ funds’ and transferred the money to ‘R&D- and Knowledge foundations’ in order to make Sweden more competitive. Further, the state invested billions in rescuing the banking system, carried out ‘crisis-measures’ (jointly with the social democratic opposition). The unemployment was 14 percent, half openly and half in labour market measures. Sweden was borrowing to the daily spending, and by so doing she could keep the official unemployment level relatively low and in this way support consumers and consumer product sectors to survive. Also, the Swedish currency was let floating, which meant depreciation with some 30 percent (after one year) to the big international currencies, and by that preserving from even more unemployment.

In Sweden the capital markets have been regulated since the so called Kreuger-crash in 1932; the deregulation started in 1985 and was completed in 1989. Also, when deciding to enter the EU, the goal of full employment was abandoned, and in stead the mastering of inflation became prioritized; it is hard to bring about a different employment development than the average in a union. By that the Swedish central bank became independent. Consequently, during the 90s the Swedish capital markets developed to be relatively comprehensive in a European perspective due to the Swedish over-representation of hosting MNCs. Further, the deregulation of monopolies continued during this decade: for instance energy, telecommunication, the railway infrastructure, financial markets were reorganized, which resulted in establishment of new companies and more competition.

Moreover, the Kreuger-crash resulted in “a grab-and-scramble meal” among many of the Swedish core businesses resulting in the fact that these businesses were “transferred” into different bank spheres. These groups, preferably the SEB- and SHB-spheres, have developed a tradition of more of keeping strategic ownerships under command than linking companies in the group to joint product development processes.¹ This sphere-phenomenon, during decades being regarded an important element in the national

¹ SEB represents the number one financial Swedish dynasty; SHB, Handelsbanken, is the biggest bank in Sweden.
business system, has lately been criticised for having been focusing too much on the big companies, and by that neglecting the development of SMEs, which Sweden are lacking severely in relative terms.

Also the R&D-context in the national business system was reorganised from 1994 when the employees’ funds’ money was transferred into the system. Billions of Swedish crowns have been invested in establishing research environments with distinctive profiles at Sweden’s new universities and other higher education institutions. The money has worked to promote the exchange of knowledge and skills between higher education and the business sector, and the use of IT in such sectors as education, teacher training and healthcare. Over the years, new working methods have emerged and the foundations’ act as initiator, fund provider, knowledge resource, prime mover and networker in bringing higher education, private enterprise and the public sector together. These efforts have resulted in many new networks of researchers, product developers, innovators, teachers, health professionals, politicians and public servants.

The ‘big company perspective’ in the Swedish Model is a legacy from the fact the Swedish well-being is built on natural resources; it takes rather big businesses to produce pulp and paper, to pick up ore from mines and distribute hydro energy. Further, during the decades around the turning to the 20th century, a number of brilliant innovations became platforms around which national champions and world class engineering enterprises were built. People were employed in ‘mill villages’ and stayed at the companies the whole life through; it gave support and security. Also, big companies and its mass production was an important element in the building of the Swedish Model; it encouraged to central and standardized labour market agreements. Moreover, Sweden was a modern industrial nation with a well-organised society already by the turning to 1900. These factors are supposed to explain the risk aversion, the constant calculation, the demand on profitability and sometimes the delaying of decision-making, which Swedes are criticized for, and what differs from the Finns. Therefore, only 10 percent of all Swedes are self-employed compared to 15 percent in the EU.

Also, the ‘big company perspective’ includes the advantages of getting state discount on energy agreements; and well into the 70s, the car producers received a higher protection of customs and support to plant investments in relation to other domestic industries. However, the fact that the forest industry is by far the biggest net exporter has not given it any protection of competition.

Sweden is administrated by a number of counties and in more or less every one there is a university or a regional college. These concentrations of education and research play regionally a new and important role by firstly, developing a profile which fits the industrial and cultural characteristics of the region, and by that, secondly constitute a natural link for strategic interaction with the regionally operations; simply, they constitute a partner for sharing know-how and exchanging information, and together with the industrial competence concentration they constitute the ingredients of a local innovation system. In Sweden this concept has become a policy by the turning of the millennium: programs for growth and increased international competition are formulated on the
national level whereas local or regional innovation systems are invited to compete for funding and by that sharing the technical and commercial risks by the Government.

Also, in every county there is a state owned organisation, Almi, with the mission to finance and develop the whole process from an idea to a profitable business as a complementary to the market; its organisational task is further to promote the development of competitive SMEs as well as to stimulate new enterprise with the aim of creating growth and innovation in Swedish business life. Also, the County’s administration has special financial tools to for instance support employment and training activities. Both these organisations supply important risk-sharing measures for business development. Besides those cooperative bodies in every county, there are special organisations, preferably in the North and at least partly state financed, with the mission to share commercial risks and supply consulting services. In other words, the supply of “hands on services” and the very first financial support are quite good. However, Sweden is really lacking a competent venture capitalist market, which can recognize entrepreneurs and finance the bigger innovative projects.

Profiles of change in the national business system

Finland

During the 1990s the co-evolution of business renewal and institutional adaptation had dramatic outcomes in Finland. Within a decade the national champions that became international were recognised widely as new period specific focal actors. When the power structures beyond individual companies and previous risk sharing mechanisms provided by the centralized national business system were gradually abolished in combination with external contingencies, the new focal actors were in need of other support mechanisms. Fortunately, they could build their corporate strategies on the negotiated sector based economic policy and the resources provided by the national innovation system. In addition, they gained leverage from international financial markets when the national banking system was in crisis. The dynamic complementarity which was build between national champion and the national innovation systems before and enhanced especially during the 1990s, stimulated the widening of the sectoral specialization of the economy. This occurred especially when companies in the new ICT sector started to get globally leading roles and acted as flagship companies in many value constellations (cf. Rugman and D’Cruz 2000).

Norway

The dominant profile of Norway in the 1990s is a country out of pace with globalization. In comparison with Finland and Sweden less business renewal and institutional adaptation took place, and a short sketch of events provides a picture of rather low transformative capacity at both the national and the firm level. A popular explanation for Norway lagging behind as to reform activities is that Norway was not forced to change due to a less dramatic crisis than in Finland and Sweden. However, the fact that Norway increasingly developed a mono-cultural economy during this phase is strongly linked
with a complementarity between national economic policies and cost advantage strategies of companies. The economic logic shared between focal actors in these two sub-systems was easily calculated and understood and therefore won general approval. But this sub-systemic complementarity is an example of the type of complementarities that can lead to inertia in the wider national business system because it fails to provide alternatives. One obvious effect of the lock-in situation created was that the national economy was pushed in a more mono-cultural direction. It focused on keeping on average companies’ competitiveness only through cost reduction, and failed to provide incentives for multi-skilled employees operating in demanding inter-company networks and epistemic communities. There were no strategies for creating new roles in global value chains. Characteristically, core parts of the power structures remained unchanged, and risks were mainly shared with employees that were rendered few incentives to upgrade their competences.

On the other hand, the deregulation of economic and industrial policies opened up new spaces for entrepreneurial activities. Large companies seized this window of opportunity and internationalized. But to a large extent these companies, which assumed the role of focal actors, acted like isolated hierarchies and failed to develop non-market coordination with suppliers and the national innovation system typical of flagship companies. Subsequently, no dynamic complementarities evolved between isolated hierarchies as focal actors and existing institutional arrangements. However, based on a change in contractual relationships within the oil sector a reorientation as to the nature of coordination was in the making. This reorientation has provided a platform for radical innovation and business renewal that has only recently become disclosed.

Sweden

During the 1990s the co-evolution of business renewal and institutional adaptation had also in Sweden dramatic outcomes. The Swedish Model was questioned, and it was obvious that its institutions were obsolete to a large extend. The employees’ funds were dismantled, which strengthened the university system and improved its regional dimension. Industrial policy measures were taken over by the innovation system with high investments in R&D, like in Finland. The dismantling of the neo-corporatist model continued; no central wage bargaining and, in principle, no formal interaction between the right- and the left-wing side in the apparatuses of interest organizations. Further in 1995, Sweden’s membership in the EU became very important both economically and psychologically. The goal of ‘full employment’ was abandoned and the mastering of inflation was prioritized. The deregulations of all kind of markets (excepting the labour market) continued. The floating of the Swedish currency, the imposing of a special safeguard tax (still existing) and the lowering of social security system implemented by the left-wing government restored the Swedish economy, which regained stability in the beginning of the new millennium.

The diversity of dominant sectors made it difficult to create tailored risk-sharing with a wide variety of flagship companies operating globally and having centres of excellence globally as the heterarchy model of MNCs was already visible in the 1980s (cf. Hedlund
1986). However, at the end of the 1990s, a ground was laid for the change of focus from the national and big company-perspective to regional clusters and to the role of SMEs.

3 The globalized economy after the turn of the century: from centralized modes of strategizing to ongoing games to redefine business roles

After the turn of the century it has become increasingly evident that companies are under pressure to constantly redefine their roles in global value constellations. For leading manufacturing companies this has meant that they ‘are to a large extent breaking their production operations, focusing their own activities to the most profitable and most innovative dimensions of their business and shifting both development and production of other operations to suppliers’ (Herrigel 2007). This type of vertical disintegration has created new business opportunities in all sorts of inter-company interfaces. To seize these new opportunities flagship companies as well as suppliers and business service providers have adopted widely a project-based organisational mode of operating (cf. Whitley 2007: 228-248). This makes it possible for flagship companies to launch and manage competence mobilisations for developing a variety of new products, processes, and businesses and participating in competing technological platforms and transnational epistemic communities simultaneously. However, this way of operating requires competences from a variety of internal and external sources. To manage and coordinate such complexity, assignments are delegated and formalised into projects. Project portfolios emerging from these decentralized projects are managed through a formalised project pipeline evaluation process.

While the deliberate strategy of the company is the rationalistic background for project portfolio management, the explorative side of competence development and network construction is also an explicit commitment, based on the view that most projects fail but the created competences can be used in other projects. Thus the strategic agility of highly profitable companies is based on the fact that they have developed also managerial processes for making use of accumulated competences in new projects (cf. Whitley 2007; Doz and Kosonen 2008). These include a talent market inside the company as well as principles for implementing work-based learning at a pace that meets the aspirations of both the employee and the employer. Such organisational practices help employees to become mobile inside the company and secure their usability in the future (cf. Bryan and Joyce 2007). In addition, employees are building their reputations by contributing to internal knowledge management systems that have been set up to support accumulation of explicit knowledge from decentralized operations. When development processes are stopped due to changes in corporate strategy venture capital is provided to project managers and key experts if they want to set up a start up and continue the work they are committed to as a life course. These new organizational practices imply that expert competences needed for business renewal are not dedicated to hierarchically managed units that have exclusive jurisdiction of their use. The management of expert competences is instead decentralized and made use of across a wide range of assignments. Thus, the extent to which a company can respond to new opportunities and redefine their roles in global value constellations depends on how efficiently it is able to manage and deploy its talent market that consists of managers, professional experts and
employees that conduct their work and have tailored assignments at the interface of customers, suppliers, the public sector, and the civil society. We call such actors front-liners in this paper (cf. Bryan and Joyce 2007).

Competition for new roles in global value constellations requires high sensitiveness towards situational contingencies. In such constantly changing situations the hands-on experience of front-liners is critical. Of course, it has to be mediated to the centre. One way of communicating critical experience is to introduce formal procedures for issue selling (Dutton et al 1993). Such procedures set the stage for front-liners to introduce projects in which principles with reciprocal justifications and a dialogically evaluation of projects’ progress can be done.

Based on secondary literature and our own case studies it appears that in the new global business context the focal as is the front-liner, not any more the top management team at the apex of the MNC. However, the awareness of the importance of front-liners is diffusing at a different pace depending on the traditions of managerial cultures and especially to the degree in which autonomy is delegated to the level of employees. For various reasons, companies in the Nordic countries have in this context some advantages. For different reasons companies in the Nordic countries have in this context some advantages. For various reasons, companies in the Nordic countries have in this context some advantages. For various reasons, companies in the Nordic countries have in this context some advantages. For various reasons, companies in the Nordic countries have in this context some advantages. For various reasons, companies in the Nordic countries have in this context some advantages. For various reasons, companies in the Nordic countries have in this context some advantages. For various reasons, companies in the Nordic countries have in this context some advantages. For various reasons, companies in the Nordic countries have in this context some advantages. For various reasons, companies in the Nordic countries have in this context some advantages. For various reasons, companies in the Nordic countries have in this context some advantages. For various reasons, companies in the Nordic countries have in this context some advantages. For various reasons, companies in the Nordic countries have in this context some advantages.

will in the following section explore how front liners are linked to changed practices of business renewal in the Nordic countries and set processes of business renewal to the contexts of institutional co-evolution in the three countries.

4 Changes in the business systems of the Nordic countries after the turn of the century

Business renewal

After the turn of the century not only Swedish based MNCs but also several Finnish and Norwegian based companies had gained integrator roles in global value constellations. Other types of roles were played by a large number of subsidiaries that had Nordic roots but were taken over by foreign MNCs. A third category of companies, included in global value constellations, consisted of providers of business services. Having made case studies of such companies and their operations at the interfaces with customers, sub-suppliers and public science systems we recognised the dramatic shift in the ways in which business renewal occurs currently. Our field work sensitised us to the fact that decisive competence development for business renewal occurred in project based assignments with varying mobilisation of internal and external experts. Such task force operations were highly autonomous. At the company level, however, organizational changes occurred at short interval and managers in charge of units and/or project portfolios had to enter into issue-selling processes in relation with the top management. Issue-selling was needed to fight for the continuity of a certain type of operation, to the maintenance of a product or business mandate or to achieve a Centre of Excellence status for the distinct type of operation or function. In foreign owned subsidiaries such micro-politics was part of the managerial agenda of all the time. Wide stock of experience from international assignments and nationally distinct organisational cultures has turned out to be a valuable resource.
The type of practices described in the previous section and in above emerged in all case studies conducted in the three Nordic countries. This sensitised us to the fact that after the turn of the century the front liner is, indeed, the new period specific focal actor. When starting to ponder over the diversity between the three countries as to the role of front liners in business renewal we recognised again the impact of sectoral specialisation. Secondly, the time horizon during which experiences from international assignments had accumulated differed, too. Thirdly, the need to enter into issue-selling processes to the top management (Dutton et al. 1993) in foreign owned MNCs was also a relatively new phenomenon in Finland and Norway but had got attention in Sweden for a much longer period, partly related also the distinctive leadership practices adopted in Swedish business organisation. Finally, the large stock of former expatriates in Sweden with experiences from a wide scope of industries turned out to be a difference in comparison with Finland and Norway (see Table 2).

**Table 2. Business renewal through front-liners participating in global value constellations**

<table>
<thead>
<tr>
<th>Nationally distinct characteristics of business renewal</th>
<th>Front liners from Finland</th>
<th>Front liners from Norway</th>
<th>Front liners from Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typical sectors</td>
<td>Forest sector, ICT-sector</td>
<td>Offshore operations; shipping industry</td>
<td>Wide scope of sectors, including consumer products</td>
</tr>
<tr>
<td>Accumulated experience of project management in global contexts</td>
<td>Several decades in the forest sector</td>
<td>More than three decades in the offshore oil and gas sector</td>
<td>Half a century in several industries</td>
</tr>
<tr>
<td>Issue selling competence of front liners in foreign MNCs</td>
<td>Its importance has been learned after a decade of struggle to maintain and expand mandates in subsidiaries</td>
<td>Internationally project based operations since the 1960s, struggles to create new businesses within large companies</td>
<td>Has been in focus in managerial training for several decades</td>
</tr>
<tr>
<td>Role of home returnees in the national context</td>
<td>Actively headhunted back to senior positions in Finnish based listed companies</td>
<td>No particular role</td>
<td>Widely recognized even in peripheral regions</td>
</tr>
</tbody>
</table>

**Institutional adaptation**

For participating in the new business renewal game in global value constellations, the Nordic countries have been in an advantageous position due to many factors related to the
work system, industrial relation system, and to national systems of innovation. Today all the Nordic countries are marked with work organizations in which the share of autonomy and learning is high. Autonomy indicates the opportunity to use your own ideas in work and that the work pace to a low degree is set by the boss. Interestingly customers were indicated the most important factor for determining the pace of work, an indication of the importance of inter-organizational relationships and boundary spanning operations (cf. EU’s Fourth Working Condition Survey 2007).

The extent of ‘learning organizations’ in the Nordic countries is linked to the fact that work organization reforms, experiments, and participatory institutions were early introduced and have over the years won general acceptance. Since the 1990s and particularly after the turn of the century reforms in work organization have known a wide dissemination in all the Nordic countries. Further training for employees on an annual basis constitutes a part of these reforms, and in this respect the Nordic countries score high by international standards. Further training is paid for both by the employer and the state, and to the extent the state is contributing it reflects a sort of risk sharing provided by the welfare state and the employees. This sort of risk sharing has been an important tool for reducing unemployment in the Nordic countries and integrating marginal groups into the labour market. An effect of such measures is that labour participation is among the highest in the OECD area.

Another sort of risk sharing can be said to involve the education system. Internationally, the Nordic countries rank high as to the percentage of their populations with a tertiary education. Because higher education is free, this kind of work force is relatively cheap, and thus also constitutes a competitive advantage for companies. A highly educated work force also represents a key input in the national innovation systems. More generally, we can also point to high mobility on the labour market due to the universalistic social security systems. High work force mobility is vital for the circulation of knowledge and competence.

Institutional arrangements that support firms’ and employees’ risk taking in re-arranging roles and routines are necessary preconditions for the internal flexibility of Nordic firms, yet we have observed that the co-evolution of institutional arrangements that provide risk sharing mechanisms vary across the Nordic countries and that the co-evolution of institution impact on national outcomes.

**The co-evolution of institutional arrangements**

**Finland**

The institutional conversion that is going on in Finland as a reflection of changes in the operations of global value constellations can be condensed to a basic trend: providing support via decentralised operations to a multitude of decentralised cross-sectoral “ecosystems”. Yet, at the same time it gives priority to a few sectors of particular economic importance. The new mode of operating is based on the following types of reform: firstly, five broad sectors or thematic areas have been defined in order to
facilitate the accumulation of knowledge concentrations (www.tekes.fi). For each concentration area a company will be founded. Its purpose is to design strategic research agendas, launch research programmes, negotiate funding consortia for research projects and link the programmes with international research agendas (Lilja et al. 2008). Secondly, the university system will be reformed by making universities legal entities that are detached from the state administration even though they retain their basic funding from the state, based on results management and negotiations. Thirdly, the national innovation strategy has been revised via a vast dialogical process and the new architecture give high priority to user and employee driven innovation processes, instead of technology push that dominated the old centralised strategy.

The institutional conversion in the national innovation system provides new opportunities to strengthen the knowledge base in Finland. Finland has the highest number of researchers per capita in the world but it is not possible to maintain such a position without introducing new modes of operating. Flagship companies with Finnish roots and other global companies that have set up their R&D operations in Finland have alternative sources of knowledge through their other centres of excellence, distributed in various parts of the globe. Especially in science based industries strong linkages to highly ranked universities are needed as internal R&D resources are not enough to produce radical innovations. But previous modes of public science system were not geared to the operating modes that are typical to the open innovation paradigm. The new organisational and legal modes of operating facilitate tailored interventions to knowledge creation that happens in global epistemic communities. As the public science system in small countries like Finland is unlikely to be the locus of new science based industries tailored investments in R&D with public debates of their priorities are a route to memberships in global epistemic communities.

Another sub-system where institutional conversion is going on is working life and the system of industrial relations. The need for reforms has arisen, on the one hand, due to the regime shopping of MNCs and the shortening life cycle of products that have caused plant closures in Finland. On the other hand, the level of unemployment has gone down when the amount of new jobs has surpassed the number of losses due to plant closures and pressures to lower costs. To react to this duality of problems, the state has merged the ministry of employment with the ministry of commerce and industry. By merging the two ministries and setting up a matrix organisation within the new ministry the Finnish government is trying to avoid typical silos in public policy making. Because decisions made by global companies have the greatest impact on national labour markets public labour market policies can be proactive only if employment policies are geared with industrial policies. Here is a clear linkage to the change in the operations of the national innovation system, described above, as industrial policy is in Finland implemented through the policies of and investments in the national innovation system.

The system of industrial relations is under a high pressure to change because the central interest association of industry and commerce has declared that it will abstain from tripartite incomes policy negotiations. Such a neo-corporatist centralised mode of regulating macro-economy has been the dominant tradition in Finland for 40 years and
accounted to a great extent to the economic growth in Finland. In the globalised economy work systems and compensation schemes differ so much even in the same industry between flagship companies and second tier suppliers that industry level collective bargaining contracts have become very difficult to negotiate. Considerable flexibility has been attributed to company level bargaining. The same dilemma is even more evident across different sectors of the labour market. Thus in the Finnish case, the employers are willing to take considerable risks that the number of industry level strikes will increase during the transitory period. However, during the recession of the 1990s, significant steps were taken especially in the metal and electronic industry to put reforms in work organisation as the main target instead of concentrating on wage bargaining. This breakthrough has been emulated in other industries gradually. The government has supported with public funding experimentations for work organisation reforms and action research linked with such experimentations have diffused the experiences to wider use in working life, in line with the Nordic tradition of working life research.

In conclusion, it can be argued that the front-liner has been detected as the new focal actor by a variety of reforms in institutions. New organisational structures facilitate tailored interventions that are negotiated in governance systems that are based on wide scale participation and joint deliberations on the result of experiments conducted. It can also be argued that the resources provided by the state through the national innovation system and through the welfare system are tools for risk sharing especially for the front liners. But it takes still a few years before the scarcity of labour in Finland will favour of the experienced front-liner in comparison with the employer in negotiations on individual terms of employment. Nor is entrepreneurship considered widely as a way of being included in global value constellations.

Norway

In a recent comparative study of the innovation systems in the Nordic countries, Norway was named the odd man out in this group (Gergils 2005:46). The main reason for this characterization is the fact that Norway is still investing far below the other Nordic countries in R&D and has become more heavily attached to the exports of raw commodities than ever. Nor in this second phase of globalization has Norway changed the priorities or strategies of her economic policy. Creating a knowledge society is a recurrent topic in political rhetoric, but the country has de facto not launched any policy to make her independent of the oil economy apart from a few exceptional and separate cases.

In 2003 the then centre-conservative government launched a so-called coherent plan for innovation policy, and in 2004 three key main actors in the innovation policy were merged to form one large organization, Innovation Norway, to support innovative activities in business. However, these structural changes did not entail the sort of institutional conversion carried out in Finland and Sweden that aimed at giving support to front-liners operating in a multitude of decentralized ‘ecosystems’. The failure to carry out appropriate reforms is first and foremost linked to the fact that no financial resources were provided for the implementation of the coherent innovation plan. Secondly, existing
programs are geared towards supporting regional development in addition to support small and medium-sized enterprises in a rather traditional way. There are only few indications that such programmes are facilitating business units that are pro-actively involved in networks of other firms and suppliers at the global level.

There is a concern to move the industrial structure towards more innovative industries. Strategies implemented are rather scattered and insufficient, and lacking comprehensive strategies for accumulating knowledge concentration as in the current case of Finland. There are no strategic research agenda or any organizational modes to link R&D investments to global epistemic communities. A main tool for pushing firms to invest more in R&D is a tax reduction system introduced after the turn of the century. However, there is a limit as to amounts to be deducted. The other main tool is user controlled R&D funding. However, this tool lacks a strategic orientation. There exist some programmes to support certain technologies, but means allocated are scarce in comparison with means allocated in Finland and Sweden. Moreover, these measures do not provide any architectural fit – either via dialogues or public debates - for supporting innovation processes taking place at the inter-faces between firms and institutions. University reforms have been slow, and the inter-action between academia and business is still weak (Moen, Maassen and Stensaker 2008).

Another striking feature of the current Norwegian business system is that it has failed also largely to reform both labour market policies and the system of industrial relations at the national level. The prime function of the centralized wage bargaining system remains unchanged. As in the first phase its key systemic function is to keep inflation under control through moderate wage increases. Although considerable flexibility has been attributed to company level bargaining, the whole design of the bargaining system, the so-called ‘frontfag’ model, does not take into account the need of varied compensation schemes in order to support experimentation and risk taking. Nor has Norway introduced active labour market policies in order to create a dynamic, diverse and skill based labour market. On the contrary, the proportion of occupational training in active labour market policies has decreased, and after the turn of the century even the political rhetoric about lifelong learning was abandoned. As a consequence further training and education is increasingly being tied to existing businesses.

Considering the fact that institutional resources supporting skills and competences needed for business renewal are less available in Norway than in Finland and Sweden, it is a remarkable achievement that certain companies have become globally competitive in their respective market niches. In such cases business renewal has occurred in cooperation with world class customers, suppliers, and partners. By entering on modes of operation that entail risk sharing between customer and supplier on the one hand, and by continuously reforming their work organization on the other, local companies in Norway have been able to carry out processes of continuous business renewal. Apart from one particular sector, the dominant pattern of business renewal consists of scattered examples of local actors participating in global games and thus lacking the momentum of business renewal that characterize both Finland and Sweden.
Whereas both Finland and Sweden have several sectors that have a strong global visibility, there is only one sector in Norway that is about to attain a global integration equal to those in Finland and Sweden: the offshore sector. It is not surprising that processes of business renewal are linked with oil and gas, but it is not a matter of course that Norwegian players should become global frontrunners in this sector. The renewal of this sector is linked to two institutional changes. First, the new contractual relation between oil companies and suppliers, as hinted to above, that gave leeway for suppliers to take place in the driver’s seat. This provided an opportunity for key players to more energetically pursue a mode of operation that involved continuous experimenting. Secondly, a continuous mode of experimenting was made possible through shared risks in assigned projects as well as in common development projects with oil companies. This open and experimenting mode of operation was facilitated through state ownership of key oil companies. A network based type of organization, which could be termed a communicative corporatist arrangement, has facilitated and supported the experimental mode that gradually emerged in the offshore sector in Norway. The competence accumulation through numerous project assignments supported the development of firms’ product portfolio that in turn has served as a platform for seizing opportunities at the global level. Moreover, the contractual relations that emerged encouraged former peripheral supplier companies to take on the role as flagship companies linking local sub-suppliers to the global level. Resources provided by the state through research programmes for oil and gas represent an additional risk-sharing tool in this sector.

**Sweden**

A basic trend, which now is converting the national innovation system after the millennium shift, is the support of knowledge clusters and dynamic areas by the set up of public agencies. These agencies supply special policy tools for certain financial situations: for instance the supply of “hands on services” and seed money for a start-up in every county and governmental growth programs and campaigns for dynamic areas. Also, as more or less every county has a university or college, was a huge investment in regional capabilities when the employees’ funds were dismantled and billions were transferred (via a special foundation) to these universities and other higher education institutions in order to promote the exchange of knowledge and skills between higher education and the regional business sector. So today, the Swedish universities are working with (by the side of teaching and researching) a ‘third task’, to cooperate with the surrounding milieu and many of them has in fact a ‘fourth task’, to act as an ‘innovative university’. For that purpose, most universities have organized special offices for technology transfers. These ingredients are important contributions to the regional tools to interact in restructuring processes.

This change to a more regional focus is due to the increased awareness of the negative elements of the Swedish Model’s ‘big company perspective’. Sweden is still proud of all her MNCs, which will continue to be the back bone in the Swedish economy. The many Swedish break-through innovations have developed into several national champions and world class engineering enterprise, which have constituted a great variety in the Swedish business system. Today they represent competence concentrations or blocs or clusters,
and provide rich platforms with intrinsic potentials for renewal. Sweden hosts for instance clusters around ABB’s Swedish part (former) ASEA (transmission), Ericsson and other ITC-businesses, Astra and Pharmacia (medicine), Volvo, Saab and Scania (vehicles), the forest and ore and mining operations. These clusters are not only positioned in the metropolitan areas but are spread all over the country and are therefore bringing about a regional economy dimension. Some of them are even marketing themselves as “dynamic areas” to draw investors to the region.

Furthermore, now at the end of the second industrial revolution Sweden is experiencing the ‘jobless growth’, and has understood the scope of her neglecting the finance and labour market reforms of SMEs during decades. Today all political parties in the Parliament are SME-friendly. And in fact, at present a fairly good breeding ground for entrepreneurship is under developing. A recent study shows that the Swedish SMEs (less than 50 employees) have created 80 000 new jobs net in Sweden during the last five years. During the same period the big companies (50 employees and more) and the public sector decreased their employment by 10 000 in net terms.\(^2\) Obviously, it is the small enterprises that will bring about the increase in employment. However, as mentioned, Swedes are self-employed to a small portion compared to the EU-average, and especially the frequency of start-ups is severely low. The determinant factor is that the Swedish tax system does not encourage high-salaried (well-educated) to start up firms. Simply, the alternative cost for a well-educated to give up a secure life as an employed is too high due to the tax progressivity, and the return on invested capital is therefore too low. On the contrary, for individuals with a weaker position on the labour market, self-employment can be a way to getting a ‘livelihood job’.\(^3\) So, the focus in the industrial policy and implemented measures in Sweden has change from big companies to how to improve the entrepreneurial milieu where the most decisive factors are the lack of venture capital and the contra-productivity in the tax system; both these factors concern the issue of risk-sharing in the society.

Due to constantly increasing international competition all competence concentrations around Sweden’s MNCs have met with severe shake-ups through mergers, acquisitions or ITC-bubble’ breaking; and so will also happened in the future. Related to the occurrence of all these shake-ups, hundreds and even thousands of individuals have been laid off. These individuals, with accumulated competences over their careers, are potential entrepreneurs with human and social capital, and power of identities that could be bridged to new businesses. All these clusters and sub-contracting systems of the Swedish MNCs are the humus from which new firms are (and will be) sprouting, and give Sweden great opportunities to phasing out the economies of scale, and let these competence concentrations breed into new types of knowledge-based economies.

Thus, front-liners have moved from international and national centres to regional and/or local eco-systems. These people are fostered, for instance, in big company ‘Chandlerian’ R&D-units, rooted in a national system of innovation and characterized by in-house upgrading of human capital. Threatened to be unemployed, they now turn to open

\(^2\) \url{http://www.foretagarna.se/templates/NewsPage_106023.aspx} 2008 05 14
\(^3\) The Swedish Globalization Council, report no 12, 2008.
innovation contexts and start negotiating with public agencies for funding from national growth programmes to sharing commercial and technological risks; it can be about a biotech firm in the Stockholm-area or a pulp and paper technology supplier in the North. These front-liners created spaces for strategic interaction and acted as initiators for new research and educational programmes, start-ups and science and technology parks.

The hinted success stories above about laid off people starting firms based on their accumulated competences over their careers indicate changes in work and industrial relation systems. One legacy of the Swedish Model is that people to a large extent have been employed in ‘mill villages’ and stayed at the companies the whole life through; it gave support and security. Still, Swedes are staying by their employers twice as long compared to the Danes. This behaviour holds still for people with a weaker position on the labour market. However, this is changing for well-educated younger people who are moving around. Also, they have not, like their parents who were ideology committed, joined the unions. Simply they do not see the benefit, and a big portion is even unsecured against unemployment. The determinant to this is a gradually radical change on the labour market with an increased number of small firms and a growing service sector. However, still the labour market parties think that it is their task to adapt the rule system to working life’s new conditions. Therefore, the parties have started discussions how to reform the famous principle agreement from 1938, which is a fundamental in the Swedish Model.

In the hinted stories above front liners engagement in social movement type initiatives is an interesting phenomenon. Due to their national and international reputation, they are, for sure, not ‘no ones’. However, they act as citizens in new roles driven by an identity constituted by their work experience and cosmopolitan way of life but still tailoring their initiative to the needs of the local heritage and context (cf. Castells 1997). Within these regional or local communities there is obviously a shared cultural context based on industry-specific practices and values. This concerns even sparsely populated areas due to long established mill village traditions. Some of the key persons were born there and had never left even when they have served customers globally in knowledge intensive project assignments; others had left and returned home, obviously with strong emotional ties to a home community, for instance, to take care of their family-owned companies or to be reunited with their families, native culture and lifestyles. These people stress the value of free public service for caring and education, and “soft factors” like a stimulating Swedish working life, competence development at firms, technological front-line, equality and easily available recreational milieus and clean environment. This “brain regain” of home returnees provides international experience and transnational networks; and maybe most important of all; they return home with benchmarks and visions from other industries, countries, and small and big cities. They become change agents and provide their localities with social, intellectual and experience-based capital.

The Swedish capital markets developed to be relatively comprehensive in a European perspective during the 90s. Stockholm has got its own “the City” with a strong finance cluster and a stock exchange, which has developed to a central gateway to the Nordic and Baltic financial markets. OMX Nordic Exchange has recently been acquired by
NASDAQ and became thus a part the world’s largest exchange company with trading, technology and public company service capability spanning six continents. However, people in the finance sector are worried about this acquisition. Obviously, operations can be transferred from the Swedish financial cluster, which thereby looses its attractiveness.

Further, Sweden has four big banking blocs all making huge profits and permanently fenced round by merger rumours. Mergers among this oligopoly structure will not improve the needed venture capital market but increase the banking profits even more. Further, in Sweden it is quite common that financial dynasties’ have foundations, which can support research and education activities and thereby share the risks by what can be called, ‘old, social, private money’ – a kind of social repaying - and thus compensating for the in Sweden severe lack of venture capital.

5 Focal actors, risk sharing, and dynamic complementarities: discussion

In this paper we have explored the current dynamics of the national business systems in Finland, Norway, and Sweden from the point of view of actor centred institutionalism. By constructing illustrative stories of shifts in the types of focal actor, we have given some justifications for the argument that a significant decentralisation both in business operations and in the system of governance of the countries has happened. Decentralisation has been detected in the shifts of the period specific type of focal actor and in the changes of priority given to distinct sub-systems and policy-making tools.

In the two phases studied we have observed a shift in the type of focal actors. While the bank groups and/or the developmental state were the focal actor until the 1990s, globalised national champions took on a leading role and became the drivers of business renewal during the 1990s. In their new roles in global value constellations these firms were able to draw on new resources for growth and renewal from transnational sources (like equity capital, human resources, links to globally leading knowledge concentrations, etc). The access to such kind of resources provided internationalised companies with the capacity to get the upper hand at the national level.

After the turn of the century what we have termed front-liners were recognised as the new type of focal actor as to business renewal. We see this type of ‘decentralized’ actor as critical for different reasons. First, when companies grow via mergers and acquisitions management teams of globalised corporations start to loose touch with the real sources of business renewal. Distinct competitive advantages that are related to the historical roots and contexts of the subsidiaries of the MNCs become hard to identify centrally (cf. Kristensen and Zeitlin 2005). Secondly, well functioning talent markets built into the organisational models and practices of corporations now form the real source of value creation. Thirdly, despite the fact that the search for new roles in global value constellations has become the dominant form of business renewal, the national context can still have a function. It can embed in its institutional settings distinct sectoral competences and knowledge concentrations that are reproduced by front liners through their experiences from the global context of business renewal and their transnational organisational and professional practices. The global visibility of sectoral knowledge
concentrations can also attract foreign direct investments to the country enriching further the renewal capacity of the knowledge concentration.

Front-liners have been recognized as a new focal actor to a varying degree and in different types of business contexts in Finland, Norway, and Sweden. Developing tools for risk sharing with this type of focal actor have been a key mechanism for the capacity to adapt after the turn of the century. We also have observed that tools for risk sharing have changed from one phase to the next. Before the 1990s risk sharing mechanisms were built and carried out by centralized types of focal actors themselves, like bank groups or the state. In addition, a universalistic welfare system was important and widely adopted in the Nordic countries but it did not provide pro-active risk sharing tools while it was concentrating on disasters that occurred in the labour market, in health or due to social problems. During the 1990s when large companies assumed the role of the focal actor, risks were to a large extent internalized and partly shared with international investors. However, at the same time it became evident that indirect state contributions to knowledge creation and professional competences became a way to compete for the attention of globalised companies. For that purpose investments in the national innovation system turned out to have a risk sharing function with companies.

By the focus on front-liners tools for risk sharing have not only changed. They have also tailored to have an enabling function. In order to take risks in the decentralized modes of operation, front-line actors need a wide range of supporting resources. Support mechanisms, like coaching, are needed to facilitate continuous upgrading of competences, cover up burn-out problems and emotional turmoil due to constant changes. When long working hours and mobility of parents are part of the way of life of front-liners support the maintenance of family life are also needed. In these respects reform programmes in working life, in industrial relations, and in welfare arrangements have constituted an institutional advantage in the Nordic countries. Likewise, decades of reforming activities at the work place level for fostering broad participation and a negotiation culture prove to be advantageous in decentralized modes of operation and negotiations, albeit unintended.

Reforms in welfare and work system arrangements that have enabled front-liners are a commonality in the Nordic countries. However, as to other types and scope of risk-sharing tools the Nordic countries vary. Apart from one sector, the offshore sector, Norway has developed less risk-sharing tools both as to employees and to firms. First, moderate wage formation has not been compensated for by lifelong learning policies, and the proportion of occupational training in active labour market policies has decreased. Moreover, the centralized wage bargaining system fails to provide incentives for multi-skilled employees operating in global value constellations. Failing to carry out reforms in this policy area has restricted the creation of a dynamic, diverse, and skilled-based labour market providing companies with less institutional resources for renewal.

Nor has Norway introduced any priorities in economic policies apart from macro-economic regulation, which main concern is to maintain budget balance and invest oil incomes abroad. At the same time as Finland and Sweden have decentralized the
operations of their respective national innovation system, new prioritized areas have been identified. For instance, Finland has prioritized five different thematic areas. These thematic areas have been designated in order to facilitate the accumulation of knowledge creation needed for firms and employees to interact with international science and epistemic communities. By contrast, Norway has neither devoted resources nor developed policies for prioritizing specific areas. Typically, there are weak links between business and academia, and national champions continue to largely act like isolated hierarchies apart from in the offshore sector.

Thus, the types of risk-sharing mechanisms that have developed in the offshore sector and that in turn have created dynamic complementarities within this sector have to a lesser degree occurred in other parts of the economy. Subsequently, Norway is less integrated into the globalized economy. Another indicator for the country’s lower degree of integration to global financial markets is the percentage share of market capitalization of the GDP. Of the Nordic countries in 2000, Norway had the lowest percentage, 39 per cent, while Sweden had 139 %. This is due to the fact that in Norway comparatively few companies were listed to the stock exchange and gained attention of international investors (Sinani et al. 2008: 30-31). Taken together, these various perspectives suggest a dual character of the Norwegian business system. One dominant part controlled by the state, and a small private sector with few ties to the networked, global, projective economy. Failing to create dynamic complementarities between various subsystems has thus resulted in a lock-in situation for considerable parts of the Norwegian business system. This has happened because the business system has lacked competence to detect relevant focal actors, and failed to adapt institutional resources to share risks with focal actors beyond the state controlled part. In this perspective Norway’s deviant path serves as a test case for the hypothesis of the paper presented in the Introduction.

6 Conclusion

By comparing the transitions of national business systems in Finland, Norway, and Sweden during two periods of change we have constructed “laboratories” to explore whether sub-systemic complementarities can be turned into a dynamic mode when the globalisation process produces new and unexpected situational contingencies for companies and policy-makers. The co-evolution of business renewal and institutional adaptation analysed above has revealed shifts both as to the types of focal actor and the relevance of distinct risk sharing mechanisms available for period specific focal actors. Our working hypothesis was that sub-systemic complementarities can be turned into a dynamic mode if some kind of match occurs between the needs of the emerging focal actors and the availability of relevant institutional resources that can be used as risk sharing mechanisms in unexpected situations of business renewal. It is obvious that there cannot be any master plan for matching the needs of focal actors with the available risk sharing mechanism. This is because the focal actor is period specific and can only be recognised after the actor has demonstrated its agency.

The first conclusion from the illustrative narrative is that part of the success in integrating companies from the Nordic countries to global value constellations is related to
investments made to the national welfare and innovation systems decades ago. Thus there appears to be an unintentional consequence contributing to dynamic complementarities across sub-systems when front-liners became the new focal actor.

The second conclusion is that cross-sectoral coordinating practices have been diverted to new forms of experimental governance at a more decentralised level of action both in inter-company relations and in cross-sectoral ecosystems. The active civil society and cross-sectoral stakeholders’ involvement in policy-making has facilitated such institutional conversion.

The third conclusion is that the mode of sectoral specialization appears to have a strong impact to the extent that a new type of focal actor is detected and institutional conversion is implemented to provide relevant risk sharing mechanisms to a distinct type of focal actor. The difference between Finland and Sweden is related to the fact that in Finland the sectoral scope has been narrow and the targets for cross-sectoral mobilisations can be easily detected even at the national level. In Sweden, on the other hand, sector specific concentrations differ strongly across regions. Internal diversification has led to a decentralisation of institutional resources and to experimenting for tailoring their use with the focal actor that is embedded in a sector or the complexity of sectors typical for a region. While the scope of sectoral specialization both in Norway and Finland has been narrow, policy makers in Norway have not been forced to take huge risks in order to support the widening of the scope of the economy. This is because the economic potential of oil and other national resources has given the state and national champions as economic actors continuing dominance and enough challenges. The conversion of institutional resources towards exploring opportunities that are categorised as radical and risky has not been possible in a national business system that is compartmentalised.

References


