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Exploring the Nordic Model: Lessons for Businesses

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The world admires the Nordic model—should U.S. companies follow suit?

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“Almost everybody admires the Nordic model,” wrote NYT columnist David Brooks. Nordic nations have consistently topped the **Sustainable Development Goal (SDG) rankings**. They excel in social equity, economic productivity, and personal happiness, offering universal healthcare and education, along with ample paid vacation time. Nordic business practices have drawn interest for their innovative approaches to sustainability and governance. In this article, we delve into key insights that practitioners can glean from Nordic firms.

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The Success of Nordic Capitalism

The Nordic model represents an expanded social welfare system combined with a market economy, providing its citizens with both security and freedom.[1] At its core, the tripartite system fosters cooperation, trust, and business opportunities in Nordic societies. Employers and labor unions collaborate under government mediation to negotiate wages on a national level through collective bargaining agreements.[2] By involving all three stakeholders in decision-making, the tripartite model achieves significant reduction in wage disparities and increase in wealth distribution, remarkably low unemployment rate, and substantial investments in welfare policies.[3] The Nordic labor market is centered around job creation and mobility. Companies are encouraged to take risks and innovate, with flexibility in hiring and layoffs. Comprehensive safety nets, including medical coverage and unemployment insurance, are in place to mitigate potential risks to workers. In exchange for these supportive labor measures, Nordic citizens are willing to pay higher taxes.

Nordic nations, while having generous welfare foundations, also operate as market-based economies. There are a plethora of Nordic companies that have been industry pioneers. Ørsted is now the world's leading producer of offshore wind energy, after transitioning away from fossil fuels in 2009.[4] **The company has recently announced a partnership with Berkeley Haas** to advance its "people-positive" framework and bolster offshore wind developments in the U.S. Copenhagen Infrastructure Partners is one of the largest investment firms focused on renewable energy, **with $30 billion raised and a 120-GW project pipeline**. Northvolt is the EU's response to China for EV battery manufacturing independence. **The company secured a $5 billion green loan**, Europe's largest loan raised to date, in January 2024 to enable expansion of its battery factory in northern Sweden. The deal was backed by over $55 billion in long-term offtake contracts with large European car manufacturers, such as Volvo, BMW, and Volkswagen.

Nordic companies also stand out for their distinctive governance practices. Ramboll, a Danish EPC company specialized in sustainability, was established as an enterprise foundation in 1972. Ramboll was gifted to a philanthropic foundation by the founders, like **Yvon Chouinard did with Patagonia in 2022**. Enterprise foundations are prevalent corporate forms in Nordic countries, particularly in Denmark, where they employ over 300,000 people.

Challenges of the Nordic Model

The success of the Nordic model raises the following question: why have other nations not adopted it? Many Western European countries, despite their similarities with the Nordic countries, have tried and struggled to adapt the model to their own realities.

Nordic nations have small, homogeneous populations, low immigration, and privileged access to natural resources. There is, especially in Nordic countries, a widespread reluctance to acknowledge race as a basis for discrimination.[5] Yet, in Sweden, there were more reported hate crimes against black people than any other racial group. Discussions around DEI in the workplace often focus solely on gender diversity.

Furthermore, a closer look at Nordic countries suggests that they might not be as sustainable as commonly perceived. Despite consistently leading in SDG rankings, Nordic nations fall short in the green SDGs 12-15. They have some of the highest levels of resource consumption and CO2 emissions, far surpassing safe planetary boundaries. **Meeting global consumption at Denmark's rate would require nearly five Earths**. Most of the region's carbon emissions occur abroad, through imports of food, building materials, or exports of fossil fuels. In 2022, **Norway exported crude oil and natural gas for a total of over $170 billion**, comprising 73% of the country's total export value that year. To become truly sustainable, the Nordic region must adopt a global view on its supply chain. Embracing the Nordic model without questioning its shortcomings would be an environmental disaster.

Lessons for American Businesses

Despite its sustainability challenges, Nordic capitalism shows that a market economy can coexist with a social welfare state. Labor unions are imperfect, but they can effectively redistribute power and wealth between employees and employers. From the 1940s to the 1960s, American society was focused on improving the living standards of its citizens, including those without college education. Labor unions and higher taxes were implemented to fund public infrastructure and education. However, the last fifty years have seen a shift away from this approach. The U.S. may not replicate the Nordic model — and should not — but it can certainly revisit its own history's good practices. NYT journalist David Leonhardt explains in his book[6] that "a strong labor movement is necessary to get us back to improving American society".

American businesses can also learn from their Nordic counterparts. Ørsted showcases how oil and gas companies like Chevron and ExxonMobil can evolve into clean energy companies by divesting fossil fuel assets and funding future growth in renewables. Ramboll can inspire new corporate forms in America, addressing the fiduciary duty dilemma of balancing climate commitments and shareholder obligations. The company is now considering whether to discontinue its services for oil and gas companies lacking clear sustainability commitments. Copenhagen Infrastructure Partners demonstrates that investing in clean energy is now more profitable than in fossil fuels, achieving a net IRR[7] of 12-14% on some of its flagship funds. Finally, Northvolt's success in Europe underscores the pivotal role of public-private partnerships and state aid.[8]

The Nordic model is flawed, yet it offers valuable insights into addressing today's socioeconomic inequities. As U.S. companies strive to build a more just society, they can draw inspiration from Nordic capitalism to catalyze innovation in corporate governance and business practices, as well as a renewed labor movement.

References

1. Strand, R. (forthcoming). Nordic Capitalism: Lessons for Realizing Sustainable Capitalism.

2. Labor unions are strong in the Nordics, representing around 70% of the workforce.

3. Sometimes negotiations fail to reach an agreement, as shown by **last year's four-day strike in Norway**.

4. Strand, R. (forthcoming). Global sustainability frontrunners: Lessons from the Nordics. *California Management Review*.

5. McEachrane, M. (2016). Afro-Nordic Landscapes: Equality and Race in Northern Europe. *Routledge*.

6. Leonhardt, D. (2023). Ours Was the Shining Future: The Story of the American Dream. *Random House*.

7. Internal Rate of Return.

8. Nordic nations could actually learn a lot from the U.S. Inflation Reduction Act, which has prompted many European companies to relocate their operations to America.

Arnaud Paquet Follow

Arnaud Paquet is an MBA candidate at UC Berkeley, where he has led the Berkeley Energy & Resources Collaborative. He has spent his entire career driving the transition from fossil fuels to clean energy and has developed a keen interest in the Nordic model after taking a course with Robert Strand.