

Do sustainable countries foster sustainable companies? A Nordic case study.

Denmark, Finland, Norway and Sweden, collectively known as the Nordic¹ countries, may be relatively small in terms of population and peripheral in terms of their geographic location. But their impact is global: IKEA, Angry Birds, Lego, Skype, Edvard Grieg, ABBA and Zlatan Ibrahimovic are all products of these four countries. Furthermore, all four are in the top six nations when it comes to most Olympic medals per capita. But besides famous companies, products, artists and athletes, the Nordics are also well known for their welfare systems, advanced democracies and sustainability policies.

Robeco and RobecoSAM recently developed a country sustainability ranking² that evaluates 59 countries according to a broad range of environmental, social and governance factors. All four Nordic countries were ranked in the top ten, with Sweden taking first place, Denmark fourth, Norway fifth and Finland eighth. So it's clear that these countries are above average in terms of

sustainability –but can the same be said for companies from the region? Have the Nordics fostered corporate sustainability?

Shared strengths – balancing individualism and collectivism

Culture, both national and corporate, is an important aspect to consider when looking at companies from the Nordics. Professor Geert Hofstede³, a Dutch social psychologist, has developed a model of how national culture influences workplace behavior. The four Nordic countries all show similar results, highlighting three dominant characteristics.

1 In the context of this paper, RobecoSAM considers the following four countries to form the Nordics: Denmark, Finland, Norway and Sweden
 2 RobecoSAM (2013): Measuring Country Intangibles – RobecoSAM's Country Sustainability Ranking
 3 The Hofstede Centre (<http://geert-hofstede.com>), accessed 27.10.2013

Figure 1: Breakdown of 2013 Nordic, developed European and developed global country sustainability scores. Total scores range from 0–10 and are a sum of the governance, environmental and social dimensions.

Source: RobecoSAM, 2013

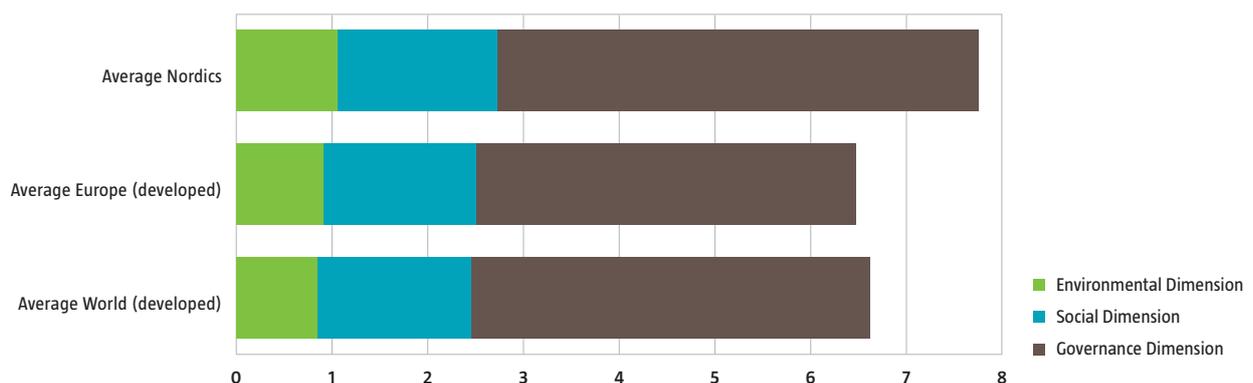
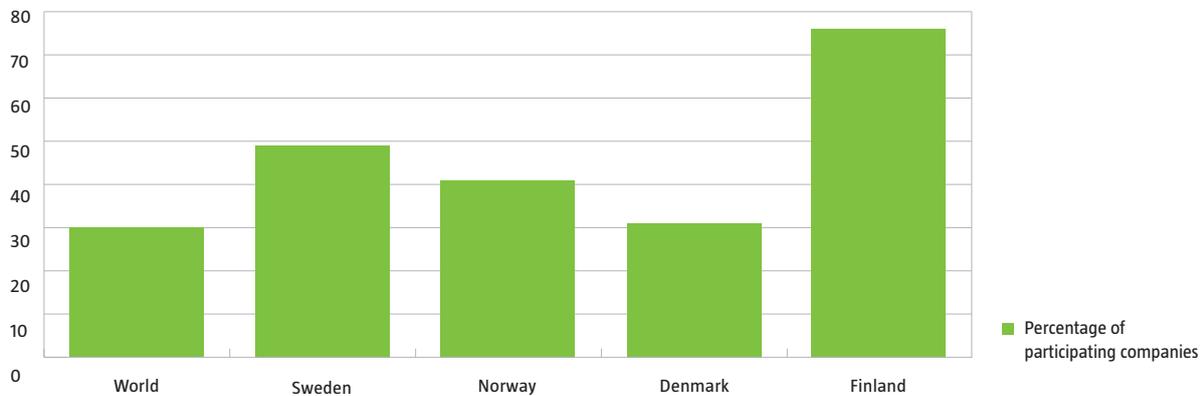


Figure 2: Percentage of companies participating in the 2013 CSA

Source: RobecoSAM, 2013



The first is related to the concept of power distance – the extent to which people with relatively little power accept that power is not distributed equally. In the Nordic countries, this acceptance is exceptionally low. This has resulted in the development of societies with flat hierarchies, managers that act more as coaches than de-

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cision-makers, and employees who expect to be consulted in the decision-making process.

Second, Nordic countries are very individualistic; therefore people are expected to take care only of themselves and their immediate family. Together with a positive view on the role of the state and a high degree of social trust, this has created a balance between individualism and collectivism that has been termed Nordic capitalism⁴. Third, all Nordic countries, with Sweden at the extreme, are considered to have "feminine" cultures in the sense that people there often place more importance on enjoying what they are doing rather than excelling at it. In practice this tends to mean that managers are generally supportive and consensus-driven, and conflicts are seldom resolved by hierarchical power, but rather through compromise and negotiation.

All three factors have helped drive the Nordic countries' success in the fields of sport, business and culture and they have also helped shape the transparent and open Nordic democracies, which do well in terms of environmental, social and governance factors and have led to impressive national sustainability results. Good scores in various rankings in areas such as social progress⁵, human development⁶ and the gender gap⁷ are all supporting evidence of this.

Impressive national sustainability results

To determine whether Nordic culture fosters corporate sustainability, we first need to look at the sustainability performance of the individual countries. RobecoSAM's recent study on country sustainability is a useful framework for assessing governance, environmental and social indicators at the national level. It considers 17 different indicators, including energy independence and policies, human development, political risk, and liberty & inequality, when calculating the aggregated country sustainability score.

The results for the Nordic region are rather impressive, with all four ranked in the top eight out of the 59 assessed countries⁸. We see this as confirmation of the success of the region's early adoption of sustainability practices and a result of strong political pressure in the region to integrate sustainability considerations into law and to manage natural and human resources sustainably. Figure 1 shows how the Nordic countries outperform their developed European and global peers in the environmental and social dimensions, and markedly so when it comes to governance factors.

High expectations for Nordic companies

With such strong sustainability credentials for the Nordic countries, one would expect Nordic companies to do very well too. In 2013, RobecoSAM invited 91 Nordic companies to take part in its annual Corporate Sustainability Assessment (CSA). Of these, 46 – more than half – accepted our invitation, well above the global average participation rate of 30 %.

4 Trägårdh (2011): Social Trust and Radical Individualism. The Nordic Model: Is it Sustainable and Exportable? Norwegian School of Management & University of Oslo.

5 Porter, Stern, Artavia Loria (2013): Social Progress Index 2013, Social Progress Imperative

6 Malik et al (2013): Human Development Report 2013. The Rise of the South: Human Progress in a Diverse World. United Nations Development Program

7 Schwab et al (2013): The Global Gender Gap Report 2013, World Economic Forum

8 RobecoSAM (2013): Measuring Country Intangibles – RobecoSAM's Country Sustainability Ranking

Taking part in our corporate sustainability assessment can be seen as a proxy for the importance a firm places on sustainability and how readily accessible sustainability data are within the organization. That said, other factors such as resource constraints or other priori-

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ties, can also affect participation. Figure 2 charts the participation rates of companies from the individual Nordic countries in our CSA compared to the global average. Finland is clearly in the lead, with over 70% of all invited companies taking part in the assessment. These high participation figures are not surprising, especially in light of the strong governments and high levels of social trust in the region. The Nordic states were all early advocates of international environmental initiatives, introducing environmental policies and building up administrative systems able to deal with environmental protection, taxes, legislation and other issues – as well as encouraging companies to address environmental issues from a business perspective⁹.

From participation to performance: do sustainable countries foster sustainable companies?

Good country sustainability rankings and high participation rates in the CSA might suggest that Nordic companies are more sustainable than their global peers – but is this really the case?

⁹ Middttun & Olsson (2011): The Nordic Model and Ecology: High Rhetoric and Mediocre Practice. The Nordic Model: Is it Sustainable and Exportable? Norwegian School of Management & University of Oslo.

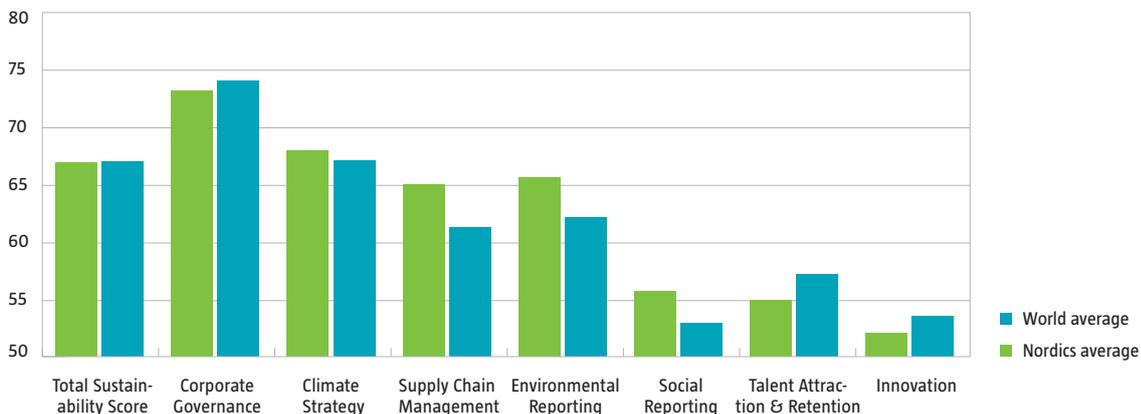
The data from our CSA suggest that the answer is not clear-cut. On the one hand, Nordic companies perform very well on average: In 2013, 19 companies representing over 20% of the eligible companies from the region, were selected for inclusion in the Dow Jones Sustainability World Index (DJSI World) – a leading global sustainability benchmark consisting of the world’s top 10% companies in terms of corporate sustainability. On the other hand, each year RobecoSAM also determines a leader for each of the 24 industry groups represented in the DJSI World, yet this year none see a Nordic company in top spot. To be fair, this may also be due to the fact that the industries in which Nordic companies operate often are highly competitive.

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Figure 3 below compares the average score of participating companies from the Nordics with the average score of all participating companies across several sustainability criteria. It shows that overall, Nordic companies are performing in line with their global peers when it comes to their total sustainability score. Breaking this down, we can see that they do better than average in criteria such as climate strategy, supply chain management and environmental & social reporting, but they lag in talent attraction & retention and innovation. Is there a logical explanation for these observations? And what determines the areas Nordic companies outperform in?

Figure 3: Comparison of 2013 Nordic and global average CSA scores for participating companies in several criteria

Source: RobecoSAM, 2013



The impacts of culture and the welfare state on corporate sustainability

We mentioned earlier that Nordic culture often involves flat hierarchies and consensus-driven decision-making. Companies also often have a stable foundation and a long-term outlook, such that leadership changes do not generally result in large-scale changes to corporate strategy. But this stability can be a double-edged sword: championing change and obtaining consensus involves a lot of effort,

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and can slow down the decision-making process. As a result Nordic firms may, on average, find it harder to innovate and implement change as this requires support from more stakeholders than in more hierarchical companies.

A second factor to consider is the important role that Nordic states play in ensuring a high standard of living for their citizens. As a result, corporate sustainability requirements in the Nordics differ from those in other countries and must be approached in a pragmatic way.

Corporate sustainability strategies should complement the state and effectively address areas that government policies fail to reach.

This may explain why Nordic companies outperform their global peers in supply chain management. Their supply chains typically extend to other countries where local government policies may be lacking. As a result, Nordic companies recognize the need to support local communities and employees working in their supply chains to a larger degree than they need to at home. Conversely, compared to their global peers, Nordic companies tend to underperform in areas such as talent attraction & retention.

Focusing corporate efforts in areas largely covered by the state may have little appeal to many Nordic companies, yet opportunities and areas for improvement remain for companies that successfully can identify and effectively integrate initiatives which are complementing government policies, such as systems for rewarding new ideas and innovation.

Because Nordic countries have been early movers in environmental policy and sustainable development, Nordic society has a relatively high level of awareness about sustainability issues. This may explain why Nordic companies are performing better than average in the reporting criteria. Companies are under considerable public scrutiny and are expected to communicate effectively to their stakeholders through their public reporting.

In conclusion, Nordic countries are more sustainable, more egalitarian, have made more social progress and offer better opportunities for their citizens than most of the rest of the world. Nordic companies are also doing well in terms of sustainability, leading the way in areas such as supply chain management and reporting. But a strong, successful state that takes care of its citizens forces companies to adapt their corporate sustainability approach. Those companies looking to complement rather than duplicate state efforts will likely take the lead in areas where many Nordic companies are currently lagging their global peers.

So Nordic companies are doing a good job, in our view, but to remain successful they need to continue to find new ways to complement the state in areas where it has limited influence, in the same way that they have created a successful approach to supply chain management. There is no reason to believe that the Nordics will not produce new ABBA's, Angry Birds and Zlatan Ibrahimovic's, and they will most likely continue to develop their unique, successful approach to corporate sustainability as well.



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