



Management quality: Sweden

Abstract

According to Bloom and Van Reenen (2010), Sweden is in a tie with Germany for having the best managers in Europe and second best in the world, after the United States. The country is also the world leader in monitoring management. And the superb performance of Swedish managers is not just a result of higher salaries. In fact, CEOs in Sweden earn less than the average in the Nordic countries and around 40 percent of the average for their international peers. So why is Sweden so good in management? As in the United States, much of the country's ability to encourage top management relates to the broader policy environment in which firms operate. First, Sweden invests in high-quality education: one in three Swedes ages 25 to 64 attended tertiary education. More than half the population between the ages of 25 and 64 attained upper secondary and postsecondary (nontertiary) education, 9 percentage points above the OECD average. Second, the education system is highly competitive. Individuals can start their own schools, the state will pay for the students, and if they manage these funds effectively enough the schools can generate profits. There's no fixed curriculum or study plan. Instead, schools are given a number of goals in each subject that students need to achieve. High-quality education matters a lot, because the smarter the employees, the greater is the management quality in the private sector. Third, Sweden has fairly competitive product markets. Roseveare et al. (2004) underscore that in the 1990s Sweden was a European pioneer in deregulating a number of sectors, including rail transport, domestic air traffic, postal, and telecom. Finally, a strong emphasis on equal opportunities makes the job market transparent and competitive. An emphasis on equality and transparency makes the recruitment process fair and competitive, allowing companies to find the best fit for a particular position. The labor market is inclusive; Sweden has the best policies in Europe toward migrant integration on the labor market and the country scored fourth in the World Economic Forum's Global Gender Gap Index 2010. European countries will need to find ways to encourage top managers to perform. Sweden is an example of how this may be accomplished.

Faced with increased competition from East Asia and North America, European enterprises need to be productive, creative, and innovative to operate on the global market. How can management quality help? According to recent findings by Bloom and Van Reenen (2010), greater management quality may positively impact a firm, and thus a country's, productivity growth. The authors put forward a ranking that compares countries according to their achievements in management. In Europe, Sweden is the leader in terms of overall management. This country benchmark investigates why.

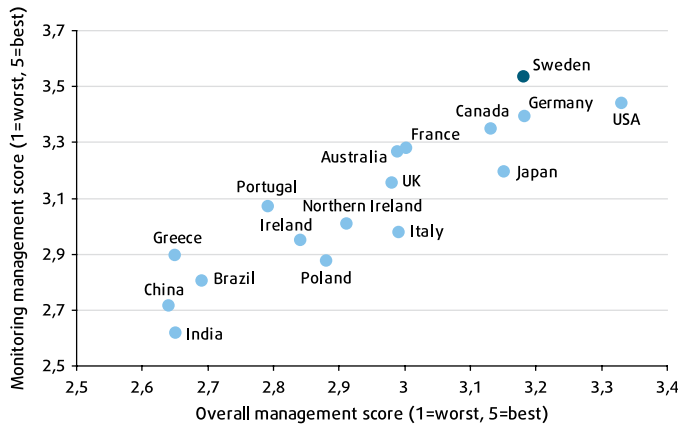
Europe's number one

Sweden (in a tie with Germany) has the best managers in Europe and second best in the world, after the United States (figure 46). The country is also the world leader in monitoring management. The superb performance of Swedish managers is not a result of higher salaries, as CEOs in Sweden earn less than the average in the Nordic countries and around 40 percent of the average for their international peers. So why is Sweden so good in management?

From efforts to achievements

There are several possible reasons why Sweden was able to outscore its European peers in management quality.

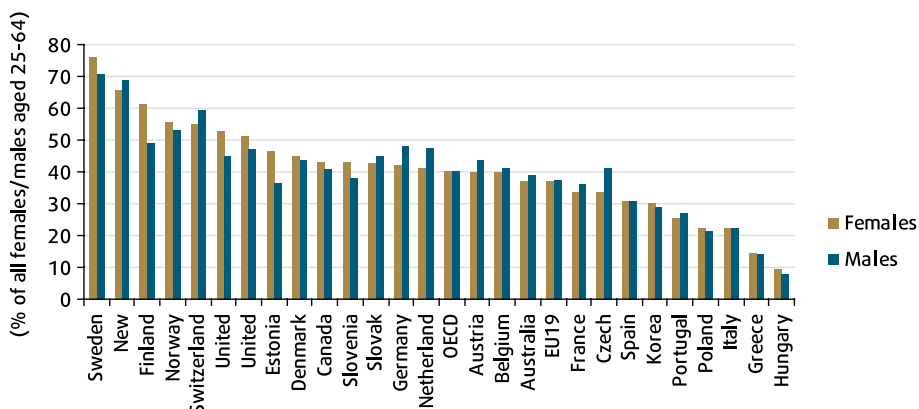
Figure 46: Overall management score and monitoring management score (1=worst practices, 5=best practices) in selected economies



Source: Bloom and Van Reenen (2010).

First, Sweden invests in high-quality education. One in three Swedes aged 25-64 attended tertiary education. More than a half of population between the ages of 25 and 64 attained upper secondary and postsecondary (nontertiary) education, 9 percentage points above the OECD average.¹ Students may choose among 17 national programs, including vocational programs that prepare for certain professions. The education system is one of the most inclusive in Europe, according to Muskens (2009).² Even more important, Swedes continue to study and improve their skills even when they finish the initial education phase. On average, 7 out of 10 Swedes aged 25 to 64 participate in formal and/or informal education, the highest ratio in OECD for men and women (figure 47).

Figure 47: Participation in formal and/or informal education in OECD countries as percentage of females/males aged 25–64 (2007)³



Source: OECD (2010).

Second, the education system is highly competitive. Individuals (e.g., parents) can start their own schools, the state will pay for the students, and if the schools manage these funds effectively enough they can generate profits. There's no fixed curriculum or study plan. Instead, schools are



given a number of goals in each subject that students need to achieve. High-quality education matters a lot, because the smarter the employees, the greater is the management quality in the private sector.

Third, Sweden has fairly competitive product markets. Roseveare et al. (2004) underscore that in the 1990s Sweden was Europe's pioneer in deregulating a number of sectors, including rail transport, domestic air traffic, postal, and telecom. Currently, Sweden's overall Product Market Regulation score is around the EU average, while the barriers to entrepreneurship are the third lowest in the OCED, after the United Kingdom and the Netherlands (figure 48, in the appendix). Although the size of the state in the economy is substantial, the Swedish government is one of the most efficient in the world. Sweden ranks fourth in the World Bank Government Effectiveness index 2010, after Singapore, Finland, and Denmark.⁴ At the same time, the country recorded the second best score in the Corruption Perception Index 2010 by Transparency International.⁵

Finally, a strong emphasis on equal opportunities makes the job market transparent and competitive. Equality and transparency makes the recruitment process fair, allowing the companies to find the best fit for a particular position. The labor market tends to be inclusive. Sweden has the best policies in Europe toward migrant integration, according to the MIPEX III ranking.⁶ The country also scored fourth in the World Economic Forum's Global Gender Gap Index 2010.⁷ Transparent recruitment processes improve management quality, because family-run enterprises tend to be less successful in managing their resources (Bloom and Van Reenen 2010).

Taking the example

What can other countries learn from Swedish experience? An important problem with domestic management strategies is that they do not work as effectively as those in other countries. The findings of Newman and Nollen (1996) confirm that simple replication of national management styles across borders falls short in most cases. Successful managers need to adapt their strategies to local characteristics to be as successful as at home. If the management strategies are hard to replicate elsewhere, why look at the Swedish experience? The case of Sweden shows that policy makers can and may impact management quality to greater extent than it is usually thought. High-quality and inclusive education as well as contestable markets have a lot to do how well the private sector is managed. Finally, the Swedish example underscores that promoting excellence in management should start with the state, as efficient and transparent governments can become pillars of quality improvements.

Sources

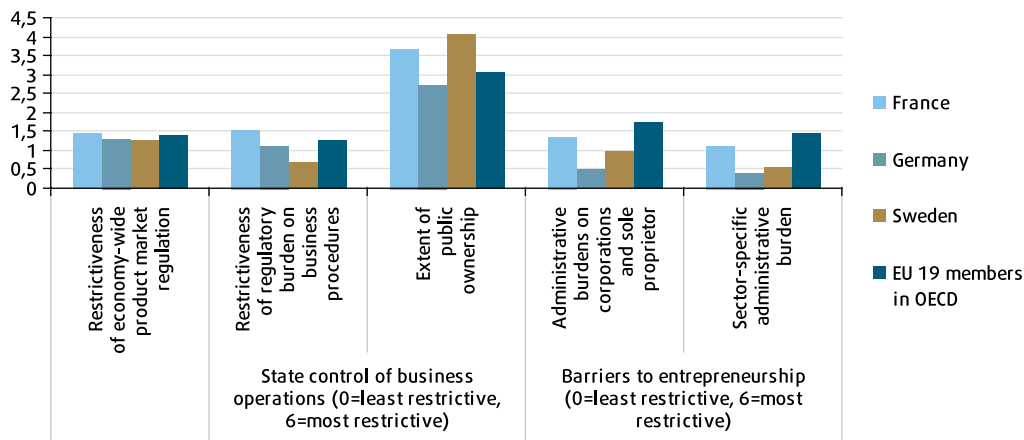
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Notes

- 1 OECD statistics, reference year: 2008.
- 2 Muskens compares 12 countries: France, Germany, Hungary, Italy, the Netherlands, Poland, Slovenia, Spain, Sweden, and the UK's England and Scotland. On the scale from 0 to 7 (7=the most inclusive), UK Scotland's score of 6 is the highest in the sample, followed by Sweden, Poland, Slovenia, and UK-England with scores of 5.
- 3 EU 19 average denotes average for countries that are members of the OECD and European Union.
- 4 The Government Effectiveness index reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.
- 5 Corruption Perception Index 2010 (0=most corrupt, 10=least corrupt): tied for first with a score of 9.3 are Denmark, New Zealand, and Singapore; tied for fourth are Finland and Sweden with a score of 9.2.
- 6 MIPEx III assesses migrant policy integration. It covers following countries: Sweden, Canada, Belgium, Finland, Norway, Portugal, United Kingdom, United States, Luxembourg, Denmark, Netherlands, Estonia, Spain, Switzerland, Austria, Czech Republic, Germany, Italy, Cyprus, France, Poland, Ireland, Slovakia, Slovenia, Romania, Latvia, Lithuania, Malta, Bulgaria, and Hungary.
- 7 The higher the score, the smaller is the gender gap in a country.

Appendix

Figure 48: Product market regulation overall index and selected subindexes in France, Germany, Sweden, and average for EU19 members in OECD, reference year 2008



Source: OECD.