A Tribute to the Successful Nordic Business Titans?

A recent article in *The Economist* (Dec 30, 2024) titled *"Why Are Nordic Companies So Successful?"* brings a rush of pride for those of us who belong to the Nordic region. It's no secret to us that Nordic companies are global powerhouses, but the article eloquently highlights their incredible achievements on the world stage, making the rest of the world sit up and take notice. The article emphasizes companies such as: Carlsberg, Lego, IKEA, Atlas Copco, Ericsson, Autoliv, KONE, Spotify, Novo Nordisk, Mærsk, Klarna, Pandora, etc.).

Despite representing just 1% of global GDP and a mere 0.3% of the world's population, the Nordic countries have given rise to some of Europe's most valuable and innovative companies. The numbers speak for themselves, and as the *Economist* points out, Nordic firms have outshone their European counterparts in recent years:

- **13% of MSCI Europe's total market value**, up from 10% just five years ago.
- Operating margins **7 percentage points higher** than the European median in 2023.
- A return on invested capital **5 percentage points higher** than their peers.
- 14 out of 20 companies boast **lower debt-to-profit ratios** compared to competitors.

The region definitely punches above its weight!

Why Are Nordic Companies So Remarkably Successful?

While the Nordic countries benefit from an abundance of natural resources, especially in Norway and Sweden, the outperformance of their companies goes far beyond that. *The Economist* highlights several factors that explain this success:

- **The Viking Spirit: A Legacy of Global Adventurers.** The Viking legacy of exploration and trade is alive and well in Nordic business culture. As Carlsberg's CEO puts it, "Our smallness is a blessing; it makes international expansion inevitable." With home markets often representing just a tiny fraction of their revenues (as little as 2%), Nordic companies are naturally driven to look beyond borders for growth.
- **Early Technology Adopters.** The Nordics are not just tech-savvy—they're tech pioneers. Take cloud computing, for example. Nordic companies were early and enthusiastic adopters, leveraging technology in ways that have set them ahead of their European counterparts.
- **Smart Government policy** is mentioned, including the corporate tax rates which is not setting the region apart negatively compared to e.g. America. Moreover, the Nordics are high ranking (all in top 10) on the economic freedom index.
- **Patient Shareholders and Long-Term Ownership.** A key differentiator for Nordic companies is the long-term commitment from their shareholders. Around 80% of large Nordic firms are privately owned or controlled by family foundations, insulating them from the volatility of short-term financial markets and allowing for steady, long-term growth. This patient capital fosters a culture of sustainable business practices and prudent investment.

Key Takeaways: Embracing Success Without Complacency

The remarkable success of Nordic companies deserves celebration—but it also calls for caution. This success is no accident. It is the product of years of visionary thinking, bold risk-taking, and consistent reinvestment. It is important not to rest on our laurels, especially as the global business landscape shifts.

Sustaining Competitive Advantage

While the Nordics are currently thriving, external factors—such as the *Draghi report* on the EU's competitiveness—could challenge our standing. It's crucial that policymakers continue to nurture the conditions that allow Nordic businesses to succeed, ensuring that they remain attractive hubs for investment and entrepreneurship. This is an area where we may have some concern. Nordic policy makers should not see this success as cash cows for public spending driving future investments away from the region and driving future entrepreneurs into the embracing arms of more hungry regions of the world.

The Unicorn Dilemma: Retaining Talent

The Nordics have been relatively successful in producing unicorns—startups valued at over $1 billion. However, some 11 of the 59 unicorns created since 2000 have left the region, with the United States being the primary destination. Denmark, unfortunately, has seen the most significant exodus. This raises concerns about how the region is treating its fast-growing businesses and entrepreneurs.

The tax challenge and opportunities

Being the home of so many fantastic companies also put the Nordic countries at a very fortunate place. Many of the companies will bring currency and tax revenue to their home states. Depending on the business models of the companies, there may be significant values in IP which has been built up in the Nordics and which will secure a significant piece of the global tax revenue pie.

This position is currently being challenged in the global tax policy landscape by the movement towards more market state taxation, which can clearly not be in the interest of the region.

The tax policies of the Nordics may have supported the long-term ownership and in particular the use of non-profit foundations. Even this area is currently challenged by tax policy developments, where the so-called global minimum tax may concretely threaten to reshape how nonprofit organizations operate globally. If not carefully managed, these changes could erode some of the unique advantages the Nordics currently enjoy.

However, we also see positive signs by the most recent Swedish policy mandate to design a R&D tax incentive for Swedish businesses and the ongoing Danish process of securing a permanent R&D super deduction. Most recently, an increased awareness that state aid may be needed to boost European businesses if emerging, also among the Nordic Heads of Government. This may include tax incentives.

Another area of concern, is the treatment of successful entrepreneurs in the region, as most recently demonstrated by the Norwegian increase of wealth taxes and exit taxes which again has let to the departure of a significant number of Norwegian entrepreneurs.

Although the Nordics have a shared history and culture and to a certain extent the same legal tradition and cooperation, it is work remembering that we are dealing with individual countries with separate languages, parliaments etc. In the areas of tax policy the countries do not share tax policies. One thing being shared is, off-course, that each country is a small and open economy, which traditionally, has not applied as high corporate tax rates as the large economies. Apart from this not many common traits have been in place, and over time the approach among the Nordic revenue agencies and tax policy makers have differed significantly (with Sweden as the potentially most relaxed and beneficial jurisdiction and potentially Denmark and Norway in fierce competition to claim the throne as the most scrutinizing and least business friendly tax authorities.

While Nordic companies are thriving, the region's policymakers must not become complacent. It's crucial that they continue to focus on innovation, keep corporate taxes competitive, and ensure that the entrepreneurial spirit remains alive and well. If these pillars are allowed to falter, the region risks losing its edge.

How we want to contribute to the continued success of the Nordic companies

At CORIT, we wholeheartedly agree with the points raised by *The Economist* and are proud to be part of the same ecosystem that fuels Nordic success. As tax advisors deeply rooted in the Nordic business mindset, with an obligatory international perspective.

We're committed to helping companies navigate the increasingly complex global tax environment.

Our mission is clear: to help Nordic businesses—whether they are the household names mentioned by *The Economist* or the rising stars not yet on the global radar—succeed. Needless to say, it triggers a great deal og price to observe that the vast majority of companies mentioned in the article are among our close partners.

We're dedicated to advocating for tax policies that support innovation and long-term growth, both in the Nordics and on the global stage and we will continue handling the risks, exposures and sometimes unreasonable outcomes caused by such tax policies and revenue agencies.