Doing business in Norway: an international perspective

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Abstract

With the recent economic crisis, in having a petroleum-based economy, Norway has withstood the fluctuation in the international business sector. Indeed, the Norwegian economy is prosperous despite the global recession. There is a positive outlook in the Norwegian market and there are no major deterrents for emerging business leaders. Nevertheless, the high taxation and high cost of living along with the eventual depletion of oil deposits may impact long term investment opportunities in Norway. Fortunately, in anticipation of oil and gas production decline, Norway has been preparing for a sustainable future by creating a petroleum fund with global investment portfolios. So, with a stable, well educated workforce, good labor relations, well developed infrastructure and technology along with low corruption statistics and a high standard of living, Norway emerges as a solid market and global investment opportunity.

Keywords: Cultural Orientation, Direct Investment, Norwegian Business Market, Political Economy, Scandinavian leadership.

Introduction

Norway lies in the western, northern part of the Northern European peninsula defined as Scandinavia and is in fact comparable in size to New Mexico (CIA World Factbook, 2012). Its people are an ethnically homogenized population with a group of indigenous people, the Sámi,
making up the most significant minority group. Romany gypsies and Kvens (Finnish-Norwegians, living mostly in the north) are the other most significant minority groups. Yet out of the total population of just over five million, there are only approximately 25,000 Sámi, who live mostly in the north eastern region of the country.

Norway had a predominantly agrarian and fishing economy up until the late 19th century. Thus, culturally, the local traditions of its people along the country’s 57,258 kilometers of fjords and coastline and the values held by the many thousands of farmers have colored each region’s way of life for many centuries. Norway followed the global path of industrialization from the 1900s, and has since built its economy on the value of the country’s raw materials. Since the discovery of oil and gas in the 1970s, modern Norway has developed into a wealthy nation. From 885–1319 Norway was an independent country, yet during an almost 600-year period, from the 14th century until the beginning of the 20th century, Norway was under the rule of other countries. From 1380 until 1814, the country was under Danish rule, and from 1814 until 1905 Norway was in a union with Sweden. In addition, Norway was occupied by the Germans from 1940–1945, with varying levels of German dominance of daily life in different regions. Hence, Norway has only had political and economic independence in modern times for just over 100 years (Store Lexicon, 1999).

The 1900s were a period of great development related to the building of hydro power and the major growth of the oil industry. In fact Norway is now defined as one of the world’s richest countries in relation to population numbers, thanks to its energy sources, closeness to other European markets, industrialization, political stability and also its high level of state education. Maritime and shipping have also been important to Norway’s economy, but the country’s reliance on these industries has decreased in relation to the development of new revenue areas (Store Lexicon, 1999). Norway’s post-World War II labor government policy in relation to regional development and low unemployment has been a central element in the country’s improvement measures in terms of a comprehensive social welfare system and good job opportunities for all (Statistics Norway, 2009; Odin. No, 2009). The main goal of this political policy has been to encourage Norwegians to live in all districts of the country and to offer economic opportunities for everyone, no matter which region they live in and regardless of their age, gender or profession. US companies will value the regional opportunities, not dissimilar to their domestic markets. These regional measures in Norway have led to greater equality in terms of salaries and social welfare. Thus, for much of the post-war period, regional policy focused on the redistribution of income to more remote areas in order to prevent depopulation.

Local government in Norway comprises 431 local municipalities in 19 counties (OECD report, 2008: 148). In 1970, agriculture and fishing still represented about 6% of total value added, yet in 2006 they accounted for only 1.5% – including aquaculture, in which Norway is the world’s leading producer of salmon (Statistics Norway, 2006). The share of manufacturing had declined from 21% to 9.4%, while oil and gas extraction rose to 28.1%. Today, approximately 75% of Norwegian employment is in the services sector (OECD, 2008: 145). As in Sweden, the labor unions in Norway enjoy a strong position. This fact, combined with the nation’s philosophy of ‘all being in the same boat’, has underpinned comparatively stable labor relations and a strong partnership between the employer’s federation (NHO) and the Norwegian Confederation of Trade Unions (LO). This strong sense of partnership between unions and business is still important to
Norwegians today (OECD, 2008: 144). Hence, Norway can be seen as a country which still has a resource-based economy, with fish, wood and energy playing an important part.

As a nation with a rich history, with a distance of almost 2,000 km from the north to the south and with a climate that can be up to 20 degrees colder in the north than the south in mid-winter, Norway has a diverse culture. Geographically, the north of Norway shares national borders with Russia and Finland, and to the east it shares borders with Sweden. All the above points lead to possible management implications to indicate that a better understanding of regional cultures and business behavior in different areas of the country will be significantly valuable both domestically and internationally.

2. Demography and Cultural Orientation

Norway’s population was estimated at 5,100,000 in March 2012 according to the Norwegian Statistics Bureau. The country’s ethnic population in total is comprised of 94.4% Norwegians, with Europeans, specifically Polish, Swedish, German, and also people from Pakistan and Iraq making up the remaining 5.6%. Hence, Norway’s ethnic make-up is not nearly as diverse as the United States’ whose population is 307,212,123 and comprised of many different races and cultures (CIA World Factbook, 2009).

Norway tends to be a very casual, egalitarian and informal country when it comes to business etiquette. People tend to introduce themselves with a firm handshake and eye contact at the start of a meeting. Norwegians tend to use first names only when communicating in a business setting with colleagues. US visitors would do well to show respect by addressing the other party by Mr., followed by the last name but should be willing to move onto a first name basis after a short time. They value directness in their communication and tend to avoid boasting. Honesty and trust are of utmost importance when entering into a business relationship. Furthermore, being punctual to a business meeting is imperative and actually indicates trustworthiness to the Norwegians. They tend to show respect by listening to a complete presentation without interrupting the speaker and visitors should expect the same consideration when they are presenting (Norwegian Culture and Etiquette, 2012). Being a moderately reserved society, it is seen as appropriate to hide excessive feelings and enjoy silence as a time for considering a proposal. More expressive Americans may misunderstand this communication pattern and wrongly assume that their counterpart is not interested or even that do not understand what is being said! A great similarity between Norwegian and American negotiators is their deal-focused approach ‘time is money’. In this way, you do not need to build a long term relationship in order to do business in Scandinavia in general.

3. Foreign Trade Background

Imports and Exports

Norway’s economic profits are largely accrued by oil and gas exports. Profits are then transferred into welfare gains and macroeconomic policies, using revenues economics wisely. Norway’s main trading partners are within the EU, whereas the United States’ main trading partner is Canada. For Norway, Petroleum and natural gas make up 20% of GDP, 25 % of public revenues, and 55% of merchandise exports. Inflation and over-valued Kroner is still a great concern with declining
imports, prices, and increasing competition. This is also causing Norway to lose their competitive advantage. Other interesting aspects of Norwegian trade are the growth of GDP of 1.1%, inflation rate recorded in April 2012 was of 0.3%, and unemployment rate of 3% (Norway-Economy, 2012).

**Economy**

Looking once more at the Norwegian economy, Norway appreciates a free trade with the EU (European Union) under the of EEA agreement (European Economic Area). Trade agreements ensure the free movement of goods, persons, services, and capital within the EU and EEA trade bloc (Global Edge- Countries, Copyright 2001-2011). The Gross Domestic Products (GDP) of the top four industries in Norway is within oil and natural gas, fishing and farming, manufacturing and business services. Norway imports most from Sweden, Germany, China, Denmark, the UK and the U.S. coming in at number six (Global Edge- Countries, Copyright 2001-2011). Regarding exporting of goods from Norway the key importers are the UK, Netherlands, Germany, Sweden, then France and the U.S. also coming in sixth as of 2010. To conclude the foreign trade background, the benefits of doing business with Norway are the size of the markets, present wealth, and future wealth of consumers (Norwegian Ministry of Foreign Affairs, 2009).

**4. Politics & Political Economy**

Norway’s Constitution was laid out at Constituent Assembly on May 17, 1814, and consists of 112 articles. Since then some of the articles have been amended over time and the most recent one was on May 2012. Some of the articles are very basic like the freedom of religion and only Norwegian citizens can vote in Norway. Although, some in the beginning were mostly about the king now a lot of those have been amended because of the different style of government (Figved, 2012).

Norway elects their legislature on a national level, their parliament also known as Stortinget has 169 members. The elections are every four years, during which the four year term no member can be replaced. Norway’s government is much like the U.S. because not one party can control the parliament but form coalitions with different parties to form their government (Advameg, 2012).

The number of seats which go to each party is decided by the Sainte-Lague method which is based purely of mathematical fairness which means a party gets as many seats relative to how many votes the party earned in that district. (Salmi, 2004) This method of election processes is having a party and district divisors decide which seats go to which party, based on the votes of each district.

Surprisingly for such a small nation, there are 21 political parties but only 7 parties get mandates which are assigned positions in the government. Only 7 parties will get mandates out of the 21 which allows a lot of change in elections depending which parties get the mandates. Norway is made up of 19 counties; each county will get seats on the legislature depending on population, and geographical area in the country.

Norwegians have for the time being voted to stay out of the EU, perhaps because they would like to keep their unique isolated economic advantages and high living standards. As Norway is linked to the EU by the EEA (European Economic Agreement) access is granted to most of Norway’s
exports excluding agricultural good in the European Union’s markets. Norway is gaining more access by adopting internally the regulations set by the European Union. Norway’s main focus now is to concentrate on planning and investing for when the oil and natural gas field are depleted. From their research, the oil field may be depleted in 20 years and natural gas in less than 90 if no new fields are discovered.

Norway is a member of the WTO (World Trade Organization) and has MFN (Most Favored Nation) status. The country in the past years has increased in exports and the prices have been higher but a big problem that Norway is dealing with, as other WTO and MFN members have, is the struggle with high agriculture prices. In 2012, Norway and Switzerland amended the double taxation on income and capital between the two countries which will promote trade and investment. Norway’s corporate income tax is at 28% compared to the U.S. 15-35% and their Individual income tax is 28-49%, with most workers paying over 40% tax on income, compared to the U.S. average rate of 15-35%.

Norway’s economy is small considered western European standards, yet it is one of the healthiest economies because of low foreign debt and a positive trade balance. Norway is rich with natural resources such as oil and natural gas in the North Sea. The country is key producer hydropower electricity from the mountains. The country is also rich in other natural resources such as fish and lumber from the vast forests. Hence Norway’s GDP (Gross Domestic Profit) is one of the highest in the world, ranked the 7th highest GDP PPP in 2012. Norway’s largest foreign investor is the United States which is followed by their neighboring country Sweden and other EU countries. Norway is also one of the world’s largest international creditors and donors to developing countries. (Norway-Overview, 2012).

5. Direct Investment, Taxes, and Labor Costs of Norway

Foreign direct investment is defined as the net inflow of investment used to acquire a lasting interest in an enterprise outside of the investor’s home economy (Hill, 2009). The Norwegian government encourages foreign investment in areas such as oil and electricity distribution. However, there are some areas that are excluded from foreign investment, including fisheries, maritime transport and government-owned enterprises such as the postal or railway services. This is because the government is particularly cautious about areas that are politically sensitive (Doing Business, 2011). Foreign and domestic investments are treated equally under the law, but non-tariff regulations, standards, and practices often favor Norwegian, Scandinavian, and European investors.

Norway has a stable and productive economy and much of its foreign capital is largely centered in the electro-chemical and electro-metallurgical industries, which includes primary materials such as iron and metal (Norway - Foreign Investment, 2012). In the 1960s, the discovery of oil and gas deposits transformed Norway into one of the world’s wealthiest countries and spurred foreign investments. Stock of foreign direct investment abroad totaled $230.9 billion as of December 31st, 2010 (The World Factbook: Norway, 2012).

The Norwegian economy is prosperous and takes advantage of the combination of a free market activity and government intervention. The government plays key roles in areas such as petroleum, fish, forests, and minerals. The petroleum sector accounts for approximately half of the country’s
exports and nearly 30% of the state’s overall revenue. Norway is the world’s second-largest gas exporter and the seventh largest oil exporter. Norway is the only democratic country with a wealth fund of this size, making it a model for outside countries (Leonard, 2008). Although the global recession has recently started to affect Norway, it has not had as severe of an impact as it has had in Canada and the United States. In anticipation of oil and gas production decline, Norway has been using a wealth fund to collect all state revenue from the petroleum sector. A sovereign wealth fund (SWF) is a state-owned investment fund usually created when a government has a budgetary surplus and little or no international debt. Norway’s sovereign wealth fund has now reached nearly $400 billion (Hopkins, 2009).

The government supports free trade, and although some limitations do exist, they are only applied to protected areas like fisheries and agriculture and are based on environmental considerations. The European Free Trade Association (EFTA) is an intergovernmental organization used to remove trade and investment barriers to benefit its four member states: Iceland, Liechtenstein, Norway, and Switzerland. EFTA was originally founded by Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the UK in 1960 and was designed to be an alternative for those states that had not joined with the European Economic Community (EEC), now known as the European Union (EU). As of October 2012, Norway and Switzerland are among the most important trading partners for the European Union. In fact, if considering the two as one single trading bloc, only the United States and China are bigger (Norway and Switzerland among the Most Important Trading Partners for EU27, 2012).

Within the last fifty years, Norway has made serious efforts to advance global free trade for the country. For example, in 1994 Norway attained membership in the European Economic Area (EEA). In this same year, Norway instilled a uniform notification and screening system for intended investments for foreign investors, replacing Norway’s traditional system which included restrictive regulations.

The value of the Norwegian currency varies considerably year to year. This is because of the changing oil prices and interest rates. In 2002, the kroner grew to a record height against the dollar and the euro. On January 2nd, 2002, 100 kroner were worth approximately 10 dollars. Around this time Norway was the world’s third highest oil exporter—and in 2005 when oil prices reached record heights, again, the kroner grew stronger. As of June 2012, the dollar was equal to 6 kroner. Today, the Norwegian kroner is the 10th most traded currency on the foreign exchange market and is making progress in comparison to the dollar. As of June 1st 2012, the exchange rate is 6.18 kroner to the US Dollar. While previous safe-haven currencies such as the U.S. dollar, the Swiss franc, and the Japanese yen have begun to struggle, investors have sought out the Norwegian kroner which has lead to an over inflated kroner (Smith, 2009). The Japanese economy is still afloat amidst the economic downturn, it has risen more than a fifth against the dollar in the end of 2008. This created hesitation among investors. Switzerland announced that the franc is at its lowest level against the euro since January (Smith, 2009). Therefore, the Norwegian currency looks attractive in comparison to the outside countries with more fluctuating currencies.

The Big Mac Index is based on the purchasing power parity theory. This theory simplifies the idea that exchange rates should equalize the price of a product in each country (Big Mac Index, 2011).
The best Big Mac buy is in India, costing approximately $1.62 which is roughly half of the price in the United States. Contrastingly, the Norwegian currency is overvalued on the burger gauge. According to the Big Mac Index dated January 2011, Norway is 62% over valued against the dollar. A Big Mac in Norway would cost $6.79 in American dollars or 41 Norwegian Kroner’s (Big Mac Index, 2011).

The quality of life in emerging markets is impacted by the countries financial and fiscal policies. Some factors that influence the quality of life in Norway include education, safety and security, governance, and personal freedom. Nearly all Norwegian children are enrolled in school, benefiting from an extremely high quality educational system. Norway is placed at 98% primary school enrollment. Norway faces few security challenges and does not partake in political violence against citizens. With low theft and assault rates of 12% and 3%, respectively, a high 86% of the population feel safe walking alone at night (Legatum Prosperity Index, 2012). Norway ranks first overall for freedom of political participation, and confidence in the military and judicial systems run high. According to the Legatum Prosperity Index, nine out of ten Norwegians are satisfied with their freedom of choice and rate their country as a good place for immigrants.

Norway’s fiscal position is seen to be very desirable in a global context. Its large oil and gas revenues have allowed Norway to run large budget surpluses and amass large net government assets. Nevertheless, Norway faces a significant fiscal challenge related to aging of its population. By 2050, Norway’s population is expected to be considerably older, with the old-age dependency ratio projected to increase by more than 80 percent (International Monetary Fund, 2011). This could affect spending on the health and long term care for these generations.

In 2011, Norway’s gross domestic product (GDP) measured on purchasing power parity basis was estimated at $264.5 billion (International Monetary Fund). A nation’s GDP at purchasing power parity (PPP) is the sum value of all goods and services produced in the country valued at prices prevailing in the United States. Norway ranks 47 on the Country Comparison charts with an estimated $265.911 billion 2012 (The World Factbook: Norway, 2012). Norway hit its peak GDP Growth Rate in January of 2012 at 4.3%; unfortunately as of July of 2009 it is ranked at a negative 2.5%. These numbers reflect a slowly declining Norwegian economy that should be seen within the context of the slowing world economy (The World Factbook: Norway, 2012).

The International Monetary Fund (IMF) monitors policies regarding the economy in member countries and promotes dialogue concerning their economies. The IMF concluded that the economic system in Norway was sound and well managed. This was established after conducting stress tests of the financial system (The IMFs Stress Testing of the Norwegian Financial Sector, 2009). Though the economy has been less than generous for many countries in the world, Norway is an exception. Norway has worked to pursue the opposite strategy of the United States by saving rather than spending and by strengthening its government while others tried to limit governmental roles. Amidst the greatest economic downturn since the Depression, Norway’s economy grew by 3% in 2008 while its government bathes in its budget surplus of 11% (Thomas, 2009).

Labor cost per unit of manufacturing output is the cost of worker compensation per unit of output. Unit labor costs rise when compensation and benefits rise faster than labor productivity. Total labor compensation in manufacturing increased in 13 of the 14 economies surveyed in 2008. The largest
increases were in Norway (+8.0 percent) and Denmark (+6.3 percent) (Manufacturing Compensation Costs in Foreign Counties and U.S., 2007, 2009). Hourly compensation costs for all employees were higher in 15 countries than the United States. Among these were three countries – Germany, Japan and Norway. According to the Bureau of Labor Statistics, in 2007, hourly compensation costs in Norway were especially high when compared to the United States. There is no legal minimum wage however; on average, European counties compensation costs were in most cases 20% higher than in the United States which are comparatively low. Hourly wages for manufacturing employees is approximately $58 in Norway, with basic service sector jobs compensated at approximately $20 an hour: higher than in the US.

Both unemployment and inflation in rates in Norway are very low at 3.1% and 1%, respectively as of January 2012. However, Norway did experience an unexpected jump in unemployment from 2008. In December 2008, the Labor and Welfare Organization reported a 2.0% level (Stoltz, 2009). New Zealand, Canada, and Norway had the highest percentages of the working-age population employed in 2012 and Norway is among the top three counties holding the lowest unemployment rate (Labor, 2012). Norway’s inflation rate stands relatively low at 0.06%. Inflation rate refers to a general rise in prices measured against a standard level of purchasing power (Norway Inflation Rate, 2012). Countries high in inflation rates are often associated with fast growing economies where demand outweighs the country’s productive capacity. In January 2009, Norway’s annual inflation rate fell to the lowest recorded level since 1960.

Some of the top Multinational Corporations in Norway include Statoil and Norsk Hydro. Though Statoil appears to have a profitable future with an anticipated 30% net profit, reports are expecting Statoil’s average revenues and profits to be down 36%, reflecting it’s position on the Most Admired Companies rank in March (World's Most Admired Companies, 2012). Some other major companies in Norway include: Telenor, Aker, Orkla, Aker Kvaener, Total E&P Norge, ExxonMobil, Yara International, and Esso. Though business is conducted primarily in Norwegian, this is not the case for multinational corporations which use English as the official business language.

The Global Competitiveness Report is a publication containing the most comprehensive assessment of the strengths and weaknesses of national economies. This document is used mainly by governments, academies, and business leaders and was first published in 1979. Today, the report covers 134 major and emerging economies. Although Norway ranked 14 on the GCR report, this is impressive when comparing to China’s 12th place position. Norway also ranked higher than Mexico, Turkey, and Egypt (Schwab, 2009-2010).

An additional strength of doing business in Norway is that it has one of the largest shipping fleets and most modern among maritime nations. (Factbook, 2012) They rank 6th out of 183 countries in ease of doing business. Furthermore, Norway’s Infrastructure is very good considering the high mountains and deep cut valleys and the northern climate. The coast of Norway is located on an important international shipping route for passengers and for imports and exports. What is more, Norway has about 25% of the world’s passenger cruise ships and about 20% of the world’s chemical tankers and gas carriers (Norway Infrastructure, Power, and Communications, 2012).
The weakness’s of Norway’s Economy is that the transportation is harder to manage in the winter months. Another constraint may be seen to be that Norway is not a full member of the European Union. Another constraint to the Norwegian economy is the country’s reliance on exports in oil and natural gas which is predicted to run out of oil in 20 years. Indeed, Norway is also very dependent on other countries to manufacture goods like machinery, automobiles, and other consumer finished goods.

Some other major risks are the constant drop in profits in Norway which is a direct impact of the recession in the world and mostly the United States’ recession. Since Norway exports more than it imports, it has enjoyed huge profitability, but since exports are decreasing due to the global recession and the inflated kroner value, Norway’s exports have seen a steady drop. An article in Forbes claimed most of the CEO’s in the leading companies in Norway expect a decline in profits because of the recent inflation (Reuters, 2009).

6. Conclusion

With the recent economic crisis, in having a petroleum-based economy, Norway has withstood the fluctuation in the international business sector. The Norwegian economy is prosperous despite the global recession, hence there is a positive outlook in the Norwegian market and there are no major deterrents for emerging business leaders. Indeed, the ‘Doing business’ index ranks Norway 7th out of 183 economies in overall ease of doing business (Doing Business 2012). Nevertheless, the high taxation and cost of living along with the eventual depletion of oil deposits may affect Norway as a potential long term investment opportunity. The cultural aspects of high levels of Humane Orientation, Gender Egalitarianism and low level of hierarchy mirror Norway's belief in the ‘Scandinavian leadership model’: An egalitarian, consensus-based, participative approach to leadership and working which promotes innovation and autonomy in the workplace. This leadership style and approach to tasks may not be the norm for investors from hierarchical, status focused, masculine business cultures. Consequently, negotiators and managers from Pacific Rim and Middle Eastern nations for example, will do well to show specific cultural mindfulness when managing and negotiating in Norway.

In conclusion, whether companies are seeking joint ventures to take advantage of knowledge transfer opportunities and innovative business practices, or FDIs for return on equity, Norway emerges as a solid global investment opportunity. Investors nevertheless will do well to take into consideration the strict labor laws, EEA legislation and high value of the Norwegian kroner before moving into the Norwegian business market. Finally, global business partners should consider the advantages of strategic alliances, joint ventures or at least the use of local ‘know how’ of business consultants such as Visma services, Accenture, PWC or Ernst & Young to help you navigate your strategies and choose the right mode of entry.
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