

Chapter 3

Leadership in Iceland: A Historical Context



*A person should not agree today to what they'll regret tomorrow.
Bandamanna Saga, c.10*

Abstract The purpose of this chapter is to frame the circumstances that affected the development of leadership in Iceland. Leadership is a result of different societal and economic processes, whereas in the case of Iceland, it is a relatively young phenomenon and it is strongly associated with the economic development of the country. Throughout the nineteenth century and in the 1900s, the quality of socioeconomic conditions in Iceland was among the lowest in Europe. This chapter recollects the development of organizational leadership traditions in Iceland.

Keywords Leadership in Iceland · Icelandic leadership · Historical context

3.1 The Bigger Picture

Organizational structures and management often reflect the nuances and differences of national cultures (Chen 2004; Cheng 1995; Hofstede 1991; Lok and Crawford 2004; Trompenaars and Hampden-Turner 1998). Hence, the changes in management and leadership practices may similarly reflect the structure and values of organizations and societies. Therefore, a complete analysis of leadership should involve consideration of the economic environment, management styles prevailing in the country, financial markets, political system, and other cultural features.

Traditional organizational forms (Weber 1968) reflect the concepts of differentiation, rationalization, and specialization and are characterized by the hierarchy, division of labor, and managerial control. Traditional structures set clear boundaries for employees and allow social environments to be easily controlled through the departmentalization and the rational acceptance of leaders and followers. In short,

these structures make it easy for people to understand their roles and how they are expected to behave in organizational settings (Yukl et al. 2002).

In contrast, more modern organizational forms, emerging in response to the fast-changing nature of today's business environments, are defined as having organically oriented structures and operations (Palmer and Dunford 1997; Morgan 1997). These structures and operations are designed to create a more fluid relationship between the organization and its environment. This, in turn, is supposed to improve the organization's operational flexibility and thus the ability to deal with internal changes as well as to react to activities in the external environment (Volberda 1999). Advancements in technology have further increased the need for a different leadership style that would involve sharing knowledge and information; these are essential in today's business world. Thus, most modern organizations are knowledge-driven, and technology is used both to gain deeper understanding and to increase efficiency. Leaders within such organizations are dependent on those who have the resources and knowledge within technology, and most leaders need to work with both people who are of another generation than they are, as well as from other cultures. Thus, the need for empathy, compassion, and companionship has increased, as the key aspect of effective leadership is helping employees and organizational members to navigate through the environment which can appear as ever-changing and often ambiguous (Guðmundsdóttir 2002), in line with a concept of an organization as an open system (Katz and Kahn 1978a). Hence, the role of flexible and adaptive leaders, who diagnose the situations and accordingly adjust the behavior, has increased (Yukl and Mahsud 2010).

More significantly, these changes have led to the widespread adoption of empowerment strategies. Such a shift is natural since if one flattens an organization's structure, there is little choice but to empower the employees at the lower level of the hierarchy with broader decision-making. As a result, the traditional "limits to power" are set as boundaries to hierarchy, and intellectual authority is also diminishing. In short, empowerment deactivates traditional power relationships that are based on vertical forms of differentiation (Clegg 1990). In turn, empowerment leads to greater autonomy among employees (Spreitzer 1995), which is needed to be adaptive and reactive to the environment, especially in the light of fast changes within society.

3.2 Icelandic Leadership in the Landscape of Traditions

The emergence of Icelandic organizational leadership can be better understood by comparing it to central characteristics of traditions in other countries. Two such traditions are identified here: the Anglo-Saxon tradition of Great Britain, the United States, and Australia and the North-European tradition of Scandinavian countries and Germany (Marginson and Sisson 1994; Lane 1989; Murakami 2000). Table 3.1 summarizes the main differences between the two traditions.

Table 3.1 Comparisons between the Anglo-Saxon and North-European traditions, and factors that influence management style

	Anglo-Saxon tradition	North-European tradition
Management-employee relations	Uncooperative	Cooperative
Ownership	Share ownership	Family ownership
Financial markets	Developed	Less developed
Planning	Short-term	Long-term
Influence of supervisory boards	Strong	Strong
Human resource management	Individualistic	Collective
Collective bargaining	Low cooperation	Corporatist agreement
Worker participation in decision-making	Low	High

Financial markets in Anglo-Saxon countries have been more developed, enabling business leaders to be more focused on short-term financial goals in order to increase the market share of their profit-driven organizations. In turn, this has affected human resource management such as relationships with employees which are often viewed as financial investments by the managers. Usually, the labor markets are decentralized, and the trade unions have traditionally been weak in these countries, and formal inclusion of employees in decision-making was not a part of the collective bargaining system (Guðmundsdóttir 2016). The North-European tradition of Scandinavia and Germany are generally different. For example, more companies are family-owned, and their financial markets have not been as developed as in the Anglo-Saxon model. Management and labor relations have been more cooperative. Collective bargaining has been based on a corporatist mode, where trade unions, employee federations, and the state negotiate on the most important issues regarding the labor market. Participation of employees is thus integrated into the system (Gustavsen 2011).

Moving from practice to theory, the majority of leadership literature is based on the Anglo-Saxon definitions and practices. For example, this general orientation is especially evident in the following sampling of leadership definitions:

- Leadership is the influential increment over and above mechanical compliance with the routine directives of the organization (Katz and Kahn 1978b).
- Leadership is the process of influencing the behavior of an organized group toward goals (Rauch and Behling 1984).
- Leadership is influencing processes affecting the interpretations of events for followers, the choice of goals for the group or organization, the organization of work activities to accomplish the goals, the motivation of followers to achieve the goals, the maintenance of cooperative relationships and teamwork, and the enlistment of support and cooperation from people outside the organization (Yukl 1998).
- Leadership is a process of social influence, whereby a leader steers members of a group toward an objective (Bryman 1992).
- Leadership is the ability of an individual to motivate others to forgo self-interest in the interest of a collective vision and to contribute to the attainment of that

vision and the collective by making significant personal self-sacrifices over and above the call of duty, willingly (House and Shamir 1993).

- Leadership is a process where both positive and highly developed organizations motivate self-knowledge and development with discipline in a positive way for both leaders and followers (Avolio et al. 2009).

The underpinnings of the Anglo-Saxon traditions are clearly embedded in these and other widely adopted leadership definitions. Virtually they are all developed in the United States. Central to these theories is the understanding of power and the ways of influencing people. In the model of power by J. R. French and B. H. Raven, proposed in 1959, six bases of social power were identified: reward, coercion, legitimacy, expertise, reference, and information, all based on an Anglo-Saxon tradition (Raven 1992). According to them, power can be gained through different ways of influencing people.

The European leadership model is more diverse as the countries are more culturally heterogeneous. In a comprehensive study on the relationship between culture and leadership concepts in Europe which focused on cross-cultural differences in leadership, six European cultural clusters were identified (Brodbeck et al. 2000) in addition to the Anglo-Saxon tradition:

1. The Nordic cluster, including Denmark, Finland, Norway, and Sweden
2. The Germanic cluster, including Austria, Western Germany, and Switzerland
3. The Latin cluster, including Belgium, Italy, Spain, Portugal, and France
4. The Middle East cluster, including Greece and Turkey
5. The Central European cluster, including countries such as Poland and Slovenia

The concepts of leadership vary across European countries. However, the unifying idea behind all of them is to move beyond a formal role in influencing others, one must first be perceived as a leader. This is different from French and Raven's model that suggests ways of leaders influencing others but does not take into account the approval of a leader by the followers. In respect to culturally endorsed leadership concepts, it is expected that the less these concepts overlap in cross-cultural leader-follower relations, the less likely it is that the leader will be accepted. In turn, it is less likely that interpersonal relationships between the leader and the follower will be characterized by trust, motivation, and other qualities that ultimately lead to high performance (Brodbeck et al. 2000). Compared to the models of Southern and Eastern Europe, the Nordic model of leadership relies more on the leaders who are inspirational and relationship-oriented. More specifically, individuals in these cultures are much more prone to strongly endorse leaders who promote team integration and team collaboration. Nordic managers have been consistently characterized as individualistic but also more "feminine" and employee-oriented than those further to the South (Smith et al. 2003). This combination of individualism and orientation toward relationships is unique to Nordic culture that values self-sufficiency but also tasks leaders with helping people achieve it through inspiring and empowering the leader-follower exchange.

3.2.1 The Early Basis for Leadership in Iceland

The Icelandic model could be categorized as fully embracing neither the North-European nor the Anglo-Saxon tradition. Even though Iceland gained independence in 1918, it was under the sovereignty of the Danish crown until 1944; as such, the Icelandic model of leadership certainly is rooted in the Nordic tradition. For example, most of the public and labor market institutions in Iceland were based initially on the Danish model. However, the development of the Icelandic labor market has been different throughout the last century. In the post-World War II period, Iceland enjoyed a high standard of living similar to the other Nordic countries. Modern Icelandic economic history spans just over one century. In the early years of industrialization, the economy was fundamentally based on fisheries and agriculture. In recent decades, the economy has diversified into export-oriented manufacturing and processing industries and range of services for both export and domestic consumption (Guðmundsdóttir 2002). The country evolved into a typical modern state in the last decades of the twentieth century, and at the time, significant changes took place in fishing, food processing, and marketing. Before the 1990s, the Icelandic model was very different from both models and could not be categorized as a part of the North-European or the Anglo-Saxon tradition, as it is captured in Table 3.2.

As depicted in Table 3.2, the Icelandic tradition was very different from the two traditions before the 1990s. Financial markets were underdeveloped, and companies were usually family-owned, labor relations were uncooperative, and the strike rate in Iceland was the highest in Europe (Guðmundsdóttir 2002).

3.2.2 Leadership Development in Iceland After 1990s

At the turn of the twentieth century, Iceland's organizations have not had the infrastructure yet to foster optimal professional management and leadership (Guðmundsdóttir 2002). Leadership is heavily associated with long-term planning (House and Shamir 1993; Yukl 1998), which was also nearly impossible for a long time in Iceland due to fluctuations in the national economy. This can be explained by the fact that after Iceland's economy gained its strength, the country had the highest strike rate in Europe and inflation was often very high before the 1990s (Kristinsson et al. 1992). Icelandic business environment remained underdeveloped and was marked by the lack of entrepreneurial and corporate experience. In the 1990s, the Icelandic leadership model went through a major transformation in response to the restructuring that was taking place in the country as a whole. Iceland joined the European Economic Area in 1996 and as a consequence was forced to change its restricted economic system to one that increasingly became more open. Changes in law and regulations made it possible for banks and other financial institutions to develop and grow more rapidly. Ownership became more diversified, cooperation in

Table 3.2 Comparisons between Iceland before the 1990s and the Anglo-Saxon and North-European traditions

	Anglo-Saxon tradition	North-European tradition	Icelandic tradition
Management-employee relations	Uncooperative	Cooperative	Uncooperative
Ownership	Share ownership	Family ownership	Family/individual ownership
Financial markets	Developed	Less developed	Undeveloped
Planning	Short-term	Long-term	Short-term
Influence of supervisory boards	Strong	Strong	Weak
Human resource management	Individualistic	Collective	Individualistic
Collective bargaining	Low cooperation	Corporatist agreement	Low cooperation
Worker participation in decision-making	Low	High	Low

the labor market increased, and corporatist relations were established as trust increased. This shift paved the way for a vibrant entrepreneurial environment that fosters socioeconomic development. However, this environment changed again after the financial collapse of the banking system in 2008 (see L ndal 1995, for an overview of pre-existing industrial relationships). These changes are summarized in Table 3.3.

The recession of the early 1990s dramatically affected the changing Icelandic model, enhancing the role of trust in employment relations that refers to both better cooperation between actors and increased participation of employees within individual organizations. Stability in employment relations meant that for the first time in Iceland’s post-war history, the inflation reached a similar level as in the other western countries, and the strike rate decreased dramatically. Thus, long-term planning became possible for managers and leaders for the first time in Icelandic business environment. Accordingly, the emergence of professional management became apparent, followed by leadership as an integral part of it.

As it is often noted throughout this book, Iceland was hit hard during the 2008 global financial crisis when its three major banks collapsed. Immediately prior to this, from 2002 to 2008, the banking sector had undergone rapid changes where they became both large and global. Today, the export economy is based on three major pillars: fisheries, heavy industries (mainly aluminum production), and tourism. Since the financial crisis, tourism has grown rapidly; in particular, it has witnessed almost an exponential growth in inbound tourism. In 2017, approximately 2.5 million guests visited the country, in comparison to roughly 490,000 in 2009 and a similar figure in 2010 (Gil-Alana and Huijbens 2018). The living standard in Iceland is among the highest in the world, and the country was rated first in 2017 based on Human Development index among nations (<http://hdr.undp.org/>). The development

Table 3.3 Comparison between Iceland after 1990 and the Anglo-Saxon and North-European tradition

	Anglo-Saxon tradition	North-European tradition	Icelandic tradition
Management-employee relations	Uncooperative	Cooperative	Uncooperative
Ownership	Share ownership	Family ownership	More share ownership
Financial markets	Developed	Less developed	Undeveloped
Planning	Short-term	Long-term	Short-term
Influence of supervisory boards	Strong	Strong	Weak
Human resource management	Individualistic	Collective	Individualistic
Collective bargaining	Low cooperation	Corporatist agreement	Corporatist
Worker participation in decision-making	Low	High	Higher

of leadership in Iceland after the 1990s has been researched from multiple perspectives.

One of the main conclusions of the research on the restructuring of Iceland's economic system in the 1990s is that Icelandic leaders are better at coping with the crisis than economic boom times (Guðmundsdóttir 2002). Such a pattern is partly explained by the flexible Icelandic labor market where demand for the workforce at times exceeds the supply and the culture of combined individualism and collectivism. Thus, for the majority of post-war years, it was very common for individuals to have two jobs, such as working as a teacher as a first position and taking a side-job of a driver (Guðmundsdóttir 2002). When financial crisis hit companies in 2008, they relied on a legal framework and the culture of acceptance when laying people off. Even when the banks fell the same year and 20% of their employees were laid off due to downsizing, these former employees felt better than those who stayed, and the social stigma associated with being laid off was not high (Snorradóttir et al. 2015). The tendency to believe that “we will find a way” combined with a flexible and multi-skilled workforce to a certain extent turned the crisis into a project that called for proper leadership and management. Such a mentality might have been shaped by the living conditions in a country that is shaken by volcanic eruptions, earthquakes, avalanches, and extreme weather conditions on a daily basis and calls for an immediate action to survive. A similar pattern in Icelandic leaders' behavior was observed in the case of the financial crisis that caused a flood of bankruptcies. The flexibility of the labor market system and the fast reaction coupled with adaptive and situational leadership set the basis for the newest “Icelandic miracle” as many foreign correspondents titled the rapid turnover of the economy in recent years (see, e.g., Washington Post 2015).

3.3 Leadership in Iceland Today

Icelandic leaders today continue to build on the tradition of nimbleness, responsiveness, and quick decision-making. One of the factors that likely contributed to these adaptations was the cumulative experience from the past events, such as the economic situation before the 1990s, when long-term planning was not possible due to fluctuations in the environment caused by inflation, employee strikes, and other related factors (Guðmundsdóttir and Guðjónsson 2013). In a research that analyzed the responses of leaders and managers to the crisis when the external forces required them to downsize, the flexibility of companies, that is, how adaptive and quick they were to respond to the changing situation, was key to their performance (Guðmundsdóttir and Guðjónsson 2013). The research on reaction of managers to the financial crisis of 2008 covered two time periods: 8 months after the collapse and 8–20 months after the collapse. The results indicated strong flexibility in both the private and the public sectors. Although the public sector showed a delayed response to the economic situation, it increasingly and vigorously adopted nontraditional and hard methods as time elapsed from the collapse (Einarsdóttir et al. 2011). However, as it was noted earlier, long-term planning and the “professionalization” of business in Iceland were still relatively new concepts. In a study of explanatory factors regarding the financial crisis, one specific factor that emerged was a weak business culture in the Icelandic society that enabled conditions conducive to corruption and questionable business practices. It was previously suggested by Vaiman et al. (2010) that the weak business culture should be considered as a different kind of corruption falling beyond the traditional definition. This weak business culture can be identified as the lack of tradition and consideration toward the set of explicit and implicit rules that facilitate business interactions in a society. In the case of Iceland, it was compounded by the lack of diversity and tight personal networks in managerial relationships and ownership which were a significant characteristic of Icelandic business (Ólafsson and Pétursson 2010; Vaiman et al. 2011). These conclusions are in line with Snaebjornsson’s research (2016), which highlights the followers’ perspective on business leadership in Iceland and suggests that the followers in Icelandic business companies assign extreme importance to the competence of the leader when identifying the central characteristics of a leader. Thus, the factors that explain why Icelandic leaders can be better at handling crises than boom periods are also likely to be the ones that are of hindrance. The ability to adapt quickly and be flexible might not give the leaders skill sets for shaping traditions that support a strong culture.

3.4 Concluding Remarks

As described in the different historical periods above, organizational leadership in Iceland is both relatively young and fragile. It still retains some underlying assumptions from the several last centuries and has been especially impacted by the notable developments over the last three decades. The evolution of leadership in Iceland suggests that it is strongly shaped not only by the needs of the followers but also by the broader environment or the context at a given point of time (Kristjánsson and Guðmundsdóttir 2010). Despite Iceland being a small and tightly knit society, the organizational leadership, as we discuss it today, primarily relates to the business environment. At the same time, there are indicators that leadership in public organizations is slightly different and in some cases shows more long-term planning and service toward the followers (Guðjónsson and Gunnarsdóttir 2014). Nevertheless, significant lessons learned by the society in the face of the crisis of 2008 have played a major catalyst role in a societal culture. The changes toward strengthening the social responsibility, along with a match and borrowing from both Anglo-Saxon and Northern-European tradition, open up the way for Iceland's own, unique type of leadership.

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