Business or People – Three Finnish Companies' HRM Responses to the Global Finance Crisis

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Abstract
During the last decade since 90's recession the Finnish economy has relied on innovation driven strategy and resource based view (RBV) and succeeded in bringing about highly advanced products and technologies. By this strategy companies have managed to keep major part of the manufacturing work in Finland in spite of the high labour costs. The sudden economic down fluctuation during 2008 has dramatically tightened the finances and forced also well performing companies to intensify the use of resources and increase cost efficiency. In this paper three Finnish case companies' human resource management (HRM) related actions from August 2008 till May 2009 are are reflected in the light of their personnel strategy and psychological contracts in order to illustrate alternative ways of reacting to the finance crisis. The reactions of the society in turn are mirrored in terms of the companies' CSR reports and the company image transmitted by them. Whether strong company image is a benefit or a burden is also discussed.

BACKGROUND TO THE FINNISH ECONOMIC MINDSET

In recent years Finland has been known as one of the most innovative and competitive economies in the world. Paradoxically Finland is also known of its somewhat patriarchal employment culture with mutual loyalty, relatively low labour turnover rate and reasonably well-functioning industrial relations (IR), despite constantly striking labour unions. The first one is largely to be thanked for the national innovation driven strategy introduced by the Finnish government as a remedy for beating the 90's recession, the latter one roots more than 100 years back to the early days of the industrial era and remained more or less untouched till the 90's recession. Especially the family owned industrial companies have been able to maintain their good reputation as responsible employers.

The Finnish 'home made recession' of the 90's is a traumatic experience worth mentioning therefore that all the measures that the companies now do in responding to the ongoing global finance crisis are openly compared and interpreted in the light of what happened almost 20 years ago. The 90's crisis affected the Finnish society on almost every level causing countless number of individual tragedies especially for family owned growth small and medium-sized enterprises (SMEs). Not even time will heal all the wounds and for sure it will live in peoples' minds as a reminder for trusting neither the employer, nor the public administration, but always acting in the benefit of oneself.

Not only did it break the trust on companies ever keeping their psychological contracts, but caused unforeseen amount of bankrupts, raised the unemployment rate near to 20% for years and broke the image of Finnish companies as loyal employers. The crisis was due to 3 parallel developments coinciding simultaneously: 1. Finland joining EU meant opening of the borders for foreign competition at the same time as, 2. devaluation of the Finnish currency by 30% had brought companies with investment loans in foreign currency into severe trouble. 3. As the Russian trade almost totally collapsed due to the fall of Soviet Union, even more jobs were lost at the same time.

Something radical was needed to build a healthy basis for the economy. As a part of the national innovation strategy heavy investments were made in raising the quality level of higher education, the polytechnics in particular, but also in R&D and academic research. In line with the innovation strategy the companies relied on the resource based view (RBV) in their human resource management (HRM) (Barney 1991; Wright and McMahan 1992) and introduced career development programs and bonus systems in order to commit their key personnel. All these factors in principal should have helped to rebuild the image of Finnish companies being responsible employers even at hard times.

However, even though the innovation strategy and RBV had brought about highly advanced products and technologies that enabled keeping most of the manufacturing work in Finland despite the high labour costs, the tightened global competition from the transitional economies in Eastern-Europe and from the BRIC countries have managed to eat-up the competitive advantage. Due to global financial crisis in 2008 even well performing healthy Finnish companies are now encountering severe problems and have started negotiations on personnel cuts and layoffs. In this paper 3 Finnish cases of different ways to react to the financial crisis are presented and discussed in light of RVB and corporate social responsibility (CSR).

THEORETICAL FRAME

According to the RBV a firm may reach a sustainable competitive advantage through unique resources which it holds, and these resources can not be easily bought, transferred, copied and simultaneously they add value to a firm while being rare. It also highlights the fact, that due to heterogeneity of assets all resources do not necessarily contribute to a firm's sustainable competitive advantage (Legge 2005; Barney 1991). Fundamental similarity in these writings is that unique value creating resources will generate a sustainable competitive advantage to the extent no competitor has the ability to use same type of resources either through acquisition or imitation (cf. MacDuffie 1995).

A concept of psychological contract can be defined as *"individual beliefs, shaped by the organisation, regarding terms of an exchange agreement between individuals and their organisation"* (Rousseau 1995). Two basic terms of psychological contracts are transactional and relational. A transactional contract is based on a close-ended time frame and mutual profitability. A relational contract, in turn, is based on an open-ended time frame, stability and mutual loyalty. It is typically found in organisations which have a long history and strong traditions. Furthermore, the Rousseau's model includes a transitional contract, which usually occurs in an unstable situation e.g. during the transition period. The forth type of contract is a balanced contract, which includes the idea of shared values and mutual commitment.

Major concern in the RBV is focused on the ability of the firm to maintain a combination of resources that can not be possessed or build up in a similar manner by competitors. This might conflict with relational contracts even though both emphasize the importance of taking good care of, keeping and maintaining the human resources as they are valuable assets in terms of the competitiveness (cf. Koch and McGrath 1996). For being able to keep their promises right kind of mixture of soft and hard HRM models is supposed to be looked for (Legge 1995; 2005*).* Hard HRM refers to utilitarian instrumentalism, whereas soft HRM reflects developmental humanism (Legge 1989; 2005; Hendry and Pettigrew 1990). Both models include the assumption of the close integration of HR policies, systems and activities with business strategy (Legge 1995), but the ultimate expectation of the models is different.

While within hard HRM human resources are harnessed to the achievement of the strategic objectives of the organisation and are equivalent of any otherfactors of production, soft HRM approach considers human resources not just any cost factor to be minimised but as a valued asset, which should be treated accordingly. Soft HRM approach sees employees as trust-worthy humans, whose competencies are worth of continuous development (Legge 1995). Considering that HRM includes the assumption that improved performance is achieved through the people in the organization (Guest 1997), better organisational performance and employee wellbeing are not contradictory objectives (c.f. Baptiste 2008). However, it has been suggested that when companies strive for profitability they are 'forced' to resort to HRM actions (e.g. compulsory redundancy, reward based short-term performance results), which although consistent with business strategy, are unlikely to generate employee commitment (Legge 1989; 2005).

In the literature, sustainable HRM is defined as sustaining the company's competitive position and the labour productivity without jeopardizing jobs and employee well-being (c.f. Docherty *et al.* 2009). It has become a social norm that companies publish their ethical principles in the sustainability report at their home pages and financial releases. Typically all label themselves socially responsible and green. The underlying message that long lasting competitive advantage can only be built via cost-efficient utilization of available human resources worldwide isn't obviously emphasized. Nevertheless, under the pressures of global competition more and more companies are today launching HRM strategies in which they confirm having adopted the principles of the flexible firm (Atkinson 1985) and striving for balanced psychological contracts with the employees (Rousseau 1995). Way or the other there will be interest groups who complain about the breaking of psychological contract (cf. Johnson and O'Leary-Kelly 2003). Even more likely will the public opinion doom the company of unethical behavior and label it as one of the caravan capitalists that outsource work from the welfare states to the third world low cost countries (Lähteenmäki and Viljanen 2008).

PURPOSE, METHOD AND DATA

In this case study based paper reactions of three Finnish multinational companies (MNCs) to the global financial crisis that started from USA in August 2008 are followed and compared to each other. Data collection is restricted to the period of 1 August 2008 – 31 May 2009. Two of the cases represent extreme ends in terms of the psychological contract and the HR-related operations introduced as a remedy to the crisis The third one falls in the middle. The purpose of the paper is to describe whether the reactions that the companies made in terms of adjusting the labour costs according to the falling demand of their goods and services were in line with the type of psychological contract that was communicated and to examine whether they at the same time managed to maintain profitability without jeopardizing their employer image. The case descriptions are based on 1) the companies' own press releases and given interviews, 2) articles published on personnel's reactions in mass media. The results will be discussed in the light of the relevance of resource based view and model on psychological agreements in the tightened global competition.

CASES

Case BE Group Finland

BE Group Finland is part of BE Group AB, which is a leading trading and service company in steel, stainless steel and aluminium in the Nordic region with expanding operations in Central and Eastern Europe. BE Group was established in 1999. The company operates in three business areas: Sweden, Finland and Central and Eastern Europe. It employs about 1,000 persons in ten countries in northern Europe. The head office of the group is in Malmö, Sweden. BE Group Finland has five warehousing and production sites. The head office is located in Lahti. In 2008, the company's turnover was EUR 318.1 million. At the end of 2008 BE Group Finland had a staff of 387 people. The following case description focuses on the personnel-related operations concerning BE Group Finland.

In September 2008 BE Group released information concerning the investments of SEK 26 million in production services in Finland. Investments were made in order to pursue the company's strategy of expanding the service share of sales. The interim report that was published soon after the previous news was titled *"Despite slowdown, BE Group heading for record year"*. BE Group President and CEO Håkan Jeppsson remarks on the report: *"We have delivered a strong third quarter and are heading towards BE Group's best full year ever. Sales went up and BE Group benefited from price increases and strong demand. However, demand moderated gradually during the quarter and the Central and Eastern European* *markets weakened faster than we expected."* This shows that the first signs of the recession were in the air and the risk of weakened demand was brought out already in September 2008.

In December 2008 BE Group AB announced that it will implement savings programme to meet rapidly falling demand. In addition, it was announced that personnel negotiations involving the group's entire personnel will be started. The number of the forthcoming personnel cuts was estimated to be around 120. The cuts were announced to be implemented mainly in Sweden, Finland, Poland and Latvia. The number of temporary employees had already been reduced as part of the savings programme. Jeppsson commented the news as follows: "*It is unfortunate that this affects our employees. Regrettably, we regard the measures as necessary to maintain BE Group's competitiveness in the future. We will, of course, show as much consideration as possible for our employees and offer the best solutions we are able to offer."*

It was not surprising that the necessity of savings and the resultant personnel cuts were justified by the need to adjust operations to the rapidly reduced demand in the Finnish market. On official press release on the company web pages (www.begroup.fi) states that *"These cost savings are designed to safeguard jobs and the strategic development of the company in the long run. The company is currently investing in the expansion and annex of the Lotila steel service centre in Lahti; this project is scheduled to be completed in early 2010."* This demonstrates that the company justified its actions by pleading to long-term profitability and viability of the company. Further, it was regretted that the savings have to be achieved at the cost of the group of employees. The ongoing investments in Finland were also underlined at the same time.

In January 2009 the company informed that the personnel negotiations have been completed. As a result, BE Group Finland gives notice to 30 employees and lay off the entire personnel for 2-4 weeks by the end of June. In addition, part of the personnel may be laid off for a longer period. According to company CEO Matti Siira employee reductions are directed to Lahti and Turku sites. The promises given earlier were kept, since the company launched an action plan aimed at helping those made redundant to find new employment. It was assured that the company will take care of the dismissed employees by supporting their opportunities of employment, re-education and training, as well as providing them with employment leave, employment program and financial support. In spring 2009 BE Group reported that the ongoing financial crisis has had severe impact on the group and the previously communicated savings progamme has been extended from SEK 100 million to SEK 150 million.

On the whole, the case Be Group did not arouse special attention in the media. Instead, it was melted into the vast amount of similar cases. The personnel reductions and lay offs were communicated in a fairly neutral manner. Further, any particular criticism against BE Group and its actions did not appear. The data revealed that despite the impaired financial situation, Be Group has systematically followed its strategic guidelines. The official communication of the company has been moderate but unembellished, what might be one reason why the reactions have been neutral. Despite the fact that BE Group was established only ten years ago it has strong Scandinavian roots. The company seems to emphasize its business concepts and strategy throughout its communication. On the company web pages the values of the company are listed as follows: customer understanding, results, action, responsibility and openness. To be more specific, responsibility means *"We take responsibility and keep our promises"* and openness is "*We are open, straightforward and clear.*" In the light of the recent operations the company has managed to consistently execute its values and therefore maintain the relational psychological contract. To summarize, Be Group's HR philosophy is soft in many respects.

Case Kemira Oyj

Kemira Oyj is an international chemicals group, which operates in 40 countries. It offers a comprehensive product range and a knowledge base in fiber treatment chemistry, chemical water treatment and water separation technology. Operations are divided into four geographic areas: North America, South America, Asia Pacific and Europe, Middle East and Africa. Kemira, former the State Sulphuric Acid and Superphosphate Plants, was established in 1920. Corporate headquarters are situated in Helsinki, Finland. The company has employees in 40 countries and more than two thirds of staff is located outside of Finland. The number of employees at the end of the year 2008 was 9,405. In 2008, Kemira had revenue of approximately EUR 2,8 billion. The second largest shareholder of the company is a state-owned investment company. In 2008 Kemira renewed its strategy, which is titled *"Profitability over Growth"* and includes a central aim at focusing on three customer-based segments: Paper, Water and Oil & Mining. Growth will be sought through investments, product and technology development and expansion into new markets at low cost. The following case description focuses on Kemira's operations in Finland.

In August 2008, a group-wide savings program was launched to improve the profitability of the company. It was announced that Kemira aims to save more than EUR 50 million per annum, of which more than EUR 20 million is planned to come from Kemira's Finnish operations. At the same time, the company informed that co-determination negotiations will be started at five of the group's Finnish sites. It was estimated that the restructuring and savings program may cause personnel reduction of up to 300 in Finland. Company's VP, Human Resources, Jukka Oinonen commented the news as follows: *"We intend to achieve personnel cost reductions in the first place by reorganising tasks and re-allocating positions and by pension plans. None of our Finnish sites will be closed, but the possibility of some direct layoffs cannot unfortunately be ruled out. Over the next few weeks, we will negotiate the process with our employee representatives."*

In October 2008, it was announced that the co-determination negotiations have been concluded. As result of the negotiations the net reduction of personnel was 298 in Finland. 191 persons were given notice and 107 persons left the company through pension schemes and termination of temporary employments. On the press release the company brought back the fact that the estimated number of personnel cuts in the beginning of the process was about 300 persons. In addition, Kemira announced that a support package would be given to persons affected. The most central parts of the package are financial support to people who need to move because of the work arrangements, pension arrangements, outplacement services, financial compensation and a new fund for financing re-education and employment.

Even before the turn of the year Kemira intensified its savings requirements. 55% of the additional annual savings of EUR 10 million will be directed to cuts in production capacity, closing of sites and termination of unprofitable businesses, 30% to headcount reduction and organizational restructuring and 15% to centralization of functional activities. Company CEO justifies the savings by saying: *"We can say in hindsight that we started the cost savings program at the right time. Our actions behind the one-time items will improve our profitability in the near future. Volatility on the financial market connected with the fast weakening of the product market has forced everyone in the business to drastic measures."*

Kemira identifies personnel as a key stakeholder group when it comes to the company's success (www.kemira.com) (cf. RBV). Company offered to R&D employees in units that were closed a possibility to move to the remaining R&D unit in Finland. In addition, it offered support packages for those affected by the personnel cuts. However, it is eye-catching that only one of the company executives (VR, Human Resources) showed sympathy to those under risk of notice and none of the executives showed any sympathy to the employees made redundant. Instead, it was brought back that the number of realized personnel cuts is smaller than was originally anticipated and only a 'standard text' mentioning the support package to be offered to those made redundant was presented in each press release concerning the personnel cuts. This indicates a rather dismissive attitude of the company management towards personnel and a remote relationship between management and employees. In this respect, it should, however, be kept in mind that it is a very large multinational corporation in question. The savings were justified by saying that: *"Volatility on the financial market connected with the fast weakening of the product market has forced everyone in the business to drastic measures."* This shows that management is hiding behind the global financial crisis and using the situation as an excuse to justify its actions. Finally, the annual report of 2008 states as follows: *"The year 2008 saw many changes in our personnel. Our strategy and organization overhaul offered a number of people new professional opportunities. Regrettably, as part of our cost savings program, we were forced to make personnel cuts, primarily in Finland, Sweden, the US and Germany. In accordance with local good practices, measures were taken to support those who lost their jobs."*

Kemira's actions received quite a lot of attention and critique in media. The tone of the articles reporting on the personnel cuts wasdifferent than those in the case of BE Group, for example. Union representatives criticized personnel reductions of being totally unnecessary and just "*an operation arranged in order to entertain shareholders*". Employees were shocked and disappointed. In Vaasa and Oulu R&D units employees made a protest against the risk of notice by walking out of the site. A strike was arranged in Oulu site as a protest against Kemira's personnel policy. In addition, bitter comments against company and its management were presented on discussion channelsin the internet. Even the government and state authorities received their share of the public criticism.

On the whole, it seems that Kemira shares information concerning its HR practices and policies as well as ethical and social responsibility principles were actively. The company publishes two global magazines: stakeholder magazine 'Just Add' and customer magazine for pulp and paper industry 'Kemira Solutions'. Further, Kemira seems to strive for societal visibility through active sponsoring. In addition, Kemira announced several acquisitions (e.g. in China and Brazil) during the data collection period. Based on the data it seems that Kemira has operated in line with its renewed business strategy, but has not succeeded in gaining trust amongst personnel and general public. The situation stems from the company's insufficient informing as regards the forthcoming personnel reductions. Kemira and the industry that it presents have a long tradition in Finnish industrial life. In spite of this, company has not invested in keeping relational contract, but has shifted towards utilitarian transactional contract, which is communicated on the company website as well. It seems that the tendency is largely due to the fact that it has lately relied mainly on hard HR philosophy.

Case Fazer

Fazer Group is a family owned company founded in 1891 by Karl Fazer who opened his first café in Helsinki. Today the Fazer Group offers meals, bakery products and confectionery, and operates in a total of eight countries. Turnover of the group was approximately 1.5 billion euros in 2008 (pro forma) and the number of employees 17.000. The mission of Fazer Group is to *create taste sensations*. Its operations are based on *passion for customer, quality excellence and team spirit*.

Traditions play an important role in the public image of the company. This showed eg. in building the Fazer bakery chain in Finland by acquiring the local market leader companies joining them into a country wide chain and promising to worship their heritage. The Fazer's blue chocolate is a brand associated with the founder himself and well known all over Europe. The company image "family with long business traditions" is cherished as strength. The Group has however a strong growth orientation in all its four divisions: Fazer Amica, Fazer Bakeries, Fazer Confectionery and Fazer Russia. Fazer Amica is a leading contract catering company in the Nordic and the Baltic countries, offering customers delicious food and tailor-made service solutions. The company operates in the Nordic countries, Estonia, Latvia and Russia. Fazer Bakeries offers fresh and tasty bakery products and operates in Finland, Sweden, Russia, Estonia, Latvia and Lithuania. Fazer Russia is responsible for Fazer's bakery operations in Russia and isone of the leading bakery companies in Russia. Fazer Confectionery is Finland's leading confectionery company and a strong player in the Baltic Sea region. Fazer's three confectionery factories are located in Finland: chocolate products are manufactured in Vantaa, sugar confectionery in Lappeenranta and chewing gum in Karkkila.

The group emphasizes corporate social responsibility which typically for the Finnish food industry culminates into a) Economic responsibility: profitability and cost structure 2) Social responsibility: well-being of employees, work safety, employee training, equality issues; origin of raw materials, product safety; customer satisfaction and feedback and finally 3) Environmental responsibility: main environmental impacts, related actions and risks (Forsman *et al*. 2008). The mission *"To meet the requirements of a clean and safe food processing industry — Moreover, we want to operate in line with the expectations of customers, consumers and society"* go in line with one of the guiding principles of the company all along its history, namely high morale and altruistic values: honest responsible business, pure raw materialsand environment friendly production.

This *high morale image* is strengthened and cleverly utilized in PR and marketing by sponsoring various associations with a similar or fit mission: organic production of cacao, doping free sports, Children's Village, opera festivals and sustainable development. The company feels responsible for the environment, nature and quality, respects traditions and develops them accordingly in order to be a model company also by today's high environmental standards, and take environmental aspects into account in all itsoperations. As the food business is less sensitive to economic fluctuations than industry in average, Fazer Group continues to maintain a strong financial position which can be summed up as *doing business as usual* meaning growing strong in Baltic area and Russia, closing down small and less profitable units in Finland. The main risks relate to Russia, where the devaluation of the rouble will probably continue, and to Sweden, where the weak Swedish krona burdens primarily the operations of Fazer Confectionery Sweden. The massive lay-offs within the industry sector in Finland and Sweden are expected to have an adverse impact mainly on Fazer Amica. The internal measures to increase efficiency and develop operations continue to counteract the effects of the difficult economic situation, but might risk the image.

Therefore company utilises the financial crisis in its cost cutting project. *'Operational conditions will deteriorate in 2009. In view of the uncertain situation, we have a strong focus on daily operations and cash flow. However, I look towards the future with confidence, and believe that we are well-equipped to further strengthen our positions in our domestic markets. Our aim is to be forerunners, to hold a leading position and to be the first choice for our customers, consumers and other interest groups,' says Karsten Slotte, President of Fazer Group.*

Subsequently 3 local Fazer bakeries around Finland have been closed in a short period despite emphasizing traditions and promising to worship the acquired family bakeries' heritage. In the Iisalmi bakery that was bought 10 years ago, the headcount of the personnel has been cut into a third. The final hit came in January 2009 when an announcement was made of deciding to close the local landmark bakery Heikkinen and transfer the production into Oulu by June 2009. Tampere bakery had already heard similar news in September 2008. Same applies to Jyväskylä bakery which is the third one to be closed as a part of the Fazer productivity increase program.

Although no massive public counter actionstook place, not everyone saw the company HRM actions as socially responsible business. A headline in a local newspaper put it: *"The business development plan of Fazer means an ice cold shower for the bakery units in Iisalmi, Jyväskylä and Tampere"*. But when all employees of Fazer went to a one-day-strike, it was labelled illegal by the employer company despite the fact that 1.300 fellow workers from same labour union participated only for showing sympathy. *"It pays back to watch what you eat. From now one there is not one single reason to buy Fazer bread at Tampere, made 159 km from here" (anonymous).*

However, as a sign of bearing responsibility of the well-being of loyal workers in all of the closings, according to the company HRM principles new jobs in the remaining factories were offered to all the employees having been laid off. A handful of them have already informed about their willingness, but for most employees with families 150-200 km is too far.

Paradoxically, in June 2009 Fazer Amica joined a sustainable development project funded by Sitra which emphasises responsible business. Yet, the company didn't postpone the closings for humanitarian reasons although minimising the number of unemployed locally would have meant a much more remarkable act of charity. On the basis of this responsible business seems somewhat hypocrite or at least mere rhetoric.

The good image and skilled way of nurturing public relations are to be thanked for only marginal negative reactions and soft encounter in the media. During the time of crisis good news such as new openings, appointed managers, growth figures and charity sponsoring are dominant and shifting in the press releases of the English home pages, whereas hardly anything is mentioned of the laying off loyal employees. The closings of the unit are only released on the Finnish web site. This shows how the company by actively giving information succeeds in maintaining the image of altruistic and responsible company that invest in any action with good aims and high morale despite it doesn't follow the same strategy in its HRM.

DISCUSSION

As the Finnish employment model has been based on strong psychological bond and mutual trust on one hand (Rousseau 1995) – strong labour unions and collective bargaining on the other, maintaining competitiveness and good employer image have become a real challenge. Employees' expectation on relational contracts cannot be met without risking competitiveness even during the boom, let alone during the crisis. As no technological break-troughs have been made, investing in people and bonus systems cannot safeguard the competitiveness of the entire economy, but as soon as the technological advantage has been lost, companies will face adjustment of personnel. In some industries this development has already been fastened by powerful unions arranging long strikes that hampered sales and customer relationships. However, in more traditional food industry, even conservative strategies such as focusing of business have meant similar personnel adjustments.

By concentrating on the most profitable businesses or by bringing production closer to the growing markets money is spared in labour costs and logistics. As human resource development (HRD) investments that do not bring immediate returns will be postponed RBV proves to be pure rhetoric (c.f. Legge 2005). Especially so as personnel cuts and layoffs at the home market cannot be avoided due to closing of unprofitable units. Amongst employees and employee representatives understanding of the unavoidable consequences of business strategy and HRM can not be taken for granted. Irrespective of the reactions by the personnel, the general public easily turns against the company and doomsit of "unethical behavior" (cf. Lähteenmäki and Viljanen 2008). However, our cases show that long history of responsible family business helps in getting acceptance among the personnel and society.

Economic crisis can however also provoke opportunistic behaviour and be utilised to legitimize ethically questionable changes in HRM strategies (cf. Greenwood 2002). It seems that the current financial crisis was welcomed by some companies as it offered a possibility to get rid of unrealistic patriarchal employee image and shift towards greater flexibility of the workforce on the basis of utilitarian contracts (c.f. Atkinson 1984). In other words, with skilled PR economic crisis can be utilised to justify unnecessary changes in HRM strategies and breaking of previous promises.

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