

# The Institutions, Processes and Outcomes of Industrial Relations and the Case of Finnish Paper Industry

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## INTRODUCTION

This paper analyzes how the outcomes of globalization are affected by institutions and the processes of industrial relations. The processes are not merely the official negotiations between the management and the union representing the workers. In order to understand the outcomes of industrial relations it is very important to pay attention to the various processes taking place at shop-floor level and to the occupational culture of employees. The detailed knowledge of the occupational subcultures of employees and the possible changes in them makes it easier for researchers to analyze how the outcomes of industrial relations are affected by processes taking place at workplace level. In order to understand the outcomes of industrial relations we have to pay a keen attention to the workplace subcultures. Of course data on institutional structures and official negotiation processes is needed, but it should be completed with data on workplace subcultures in order to fully capture the outcomes of institutions and processes of industrial relations. This argument is a not a new one. It has been put forward by the interactionist and weberian social action strand of sociology of work (see for instance Noon & Blyton 2002; Watson 2003).

In order to illustrate our argument we utilize a case study about Finnish paper industry. We put forward the following research question: How the outcomes of outsourcing for cleaners were affected both by institutions and processes of industrial relations. As far as the processes are concerned we pay special attention to the workplace subculture of the cleaners and changes in it.

By institutions we mean the collective agreement of Finnish paper industry for the period of 2005-2008, Finnish Contracts of Employment acts and the bargaining power of the Finnish Paper Workers' Union. By processes we mean the local negotiations between the union branch and the management of the paper plant on terms of outsourcing and especially the response of the cleaners on outsourcing. The work culture of the cleaners ran counter to the demands of their new employer causing an increase in stress and sickness absence during the cleaners' first 7 months in the new company. As a consequence of this response both the paper plant and the new employer of the cleaners took some positive measures, which decreased the level of stress and sickness absenteeism.

## METHODS

We have gathered data both before and after the outsourcing of the cleaning operations. The data gathered on institutions and processes before the outsourcing consists of the following material:

1. The data about bargaining between Finnish Forest Industries Federation and Finnish Paper Workers' Union before and during the lockout imposed by Finnish Forest Industries Federation in spring 2005. The outcome of this bargaining process was the collective agreement for the period from July 2005 to March 2008. The data consists of material published by both parties in the internet on their web pages, the new collective agreement and articles published by Finnish newspapers.
2. The competitive position and globalization of Finnish paper industry is outlined mainly by material based on the report: *The Finnish Paper Industry. Current State and Future Challenges. Report of the Working Group of the Finnish Paper Industry*. The report was published in May 2006 by Finnish Forest Industries Federation and Finnish Paper Workers' Union.
3. In addition to published material we also utilized the focused interviews of the manager of

human resources, the chief shop steward and the representative of occupational health and safety of the paper factory and also the own shop steward of the cleaners in May and June 2006 and a group interview of all the cleaners in September 2006.

The theme interview data collected after the outsourcing dealt with the happenings that could be understood as consequences of it. The theme interviews took place in October and November 2006 and May 2007. The following people were interviewed: the manager of human resources and the representative of occupational health and safety of the paper factory and the former shop steward of the cleaners. Interviewing the same persons at different points of time was needed in order to enable the researchers to follow various processes and the changes in the activities of the partners involved.

The data analysis aimed to make a comprehensive picture of the interaction between industrial relations institutions (the labor market partners, collective agreements and labor laws in question), processes (bargaining about outsourcing and the emergence of the working culture of the cleaners) and outcomes (changes in the absenteeism of the cleaners)

## **RESULTS**

### **The Globalization of Finnish Paper Industry: Pressures and Action**

Traditionally the paper industry has played a very important role in the Finnish economy and even nowadays Finland is still more dependent on the forestry industry than any other country. The pulp and paper industry accounts for over 15 % of goods exported from Finland, while the whole forestry industry accounts for about one fifth of exports. Finland, Sweden and Canada are major exporters of paper and form an exception to the rule: paper production usually exists to supply the needs the domestic market. The competitive position of the Finnish paper industry is based on a long tradition of making paper, a well-educated workforce, a strong forest cluster and a high-level of technical know-how. These factors have ensured the industry's leading edge in technology, as well as the rapid growth in productivity. Owing to its technological superiority the Finnish paper industry has achieved faster productivity growth than in competing countries. Before Finland's membership (since 1999) of the Economic and Monetary Union, exchange rate policies (devaluation of Finnish currency) were used as a last resort to maintain the profitability in the paper industry and its high level of investment. Since Finland's membership of the EMU, it has no longer been possible to use this instrument to safeguard the competitive position of the Finnish paper industry. However, the changes in the international operating environment of the paper industry have affected more the competitiveness of the Finnish paper industry than the narrowing space of Finland's economic policy brought about by membership of the European Union and the EMU. (The Finnish Paper Industry, pp. 24.)

The world's paper industry is undergoing a major structural transformation for the following main reasons (The Finnish Paper Industry, pp. 10-18):

- Demand for paper products is most rapidly growing in Asia (excluding Japan) and in other parts of the world outside the western Europe and North America, but slowly in Finland's main markets in Europe. Assessments of the long-term outlook for the global consumption of paper products forecast that the consumption will grow worldwide by an annual average of about 2-2.5 % by the year 2020. However the growth rate will continue to vary considerably from one region to another. In Asia (excluding Japan) and in Eastern Europe, the annual growth will be about 4-5 %, in Africa and Latin America about 3 %, but in mature markets (Western Europe, North America and Japan) at most only 1 %.
- Paper production capacity is growing where the market is growing fastest, especially in Asia and South America, and in these regions production is increasingly being transferred to regions with rapidly growing plantation forests. Production costs of the paper industry in these countries are also significantly lower than those in North America and in Western Europe.
- The real prices of different paper products have significantly decreased during 1985-2005 and this downward trend, it is predicted, will continue for at least the next 5-10 years

because the production capacity exceeds the demand. In addition, printed communication is increasingly being replaced by electronic communication in high-income countries, and this has also reduced sales of certain paper grades.

- The technological lead held by North American and European (especially Finnish) paper plants has narrowed significantly.
- Ownership has become more international and capital can move without any significant barriers. The required return on investment is the same anywhere in the world and companies relocate their plants on the basis of market growth and favourable conditions.

The Finnish paper industry has reacted to changes in the domestic and international environment in the following ways:

The globalization of production and ownership of the Finnish paper industry occurred relatively late, mostly after 1996. Within a few years, by 2001, the share of foreign ownership of Finnish forestry industry companies rose from 30 per cent to 60 per cent, and during the same period the share of production capacity located abroad increased at the same speed, both through acquisitions and real investment. Finnish companies have mostly expanded into their traditional market areas: Western Europe, to a lesser extent into North America and least into Asia. Closeness of markets and customers, short transport distances, availability of recyclable fibre, and low-priced wood fibre and, in particular, low transportation costs were the decisive factors in relocation of production. Today more than 60 % of the production capacity of Finnish paper companies is located abroad. (The Finnish Paper Industry, pp 8-10, 96.)

Of course, mere globalization cannot guarantee the competitiveness and profitability of the plants operating in Finland. Using international statistics obtained from the OECD STAN database, we can compare the profitability of paper industry operations of different countries, excluding their foreign operations. For maximum comparability, only those countries with a forestry industry that is structured in similar way to that in Finland are included. According to this comparison, paper firms located in Austria, Sweden and the USA produced a better net operative surplus than Finnish companies in 2002 and 2003. Net operating surplus as a percentage of production value as an indicator is roughly equivalent to the concept of 'operating profit/turnover' as used in financial statements. Net operating surplus is the amount covering interest expenditure, taxes and the distribution of profits (The Finnish Paper Industry, pp. 30-31.).

The indicator "return on investment" produces an even darker picture of the profitability of Finnish paper companies compared to most important forestry industry companies in the USA, Sweden, Canada and Europe. In this comparison, operations both at home and abroad are included. The profitability of Finnish forestry industry was below the average of that of the above-mentioned regions from 2001 to 2005. During this period there was a substantial weakening in the profitability of Finnish paper industry companies. This deteriorating profitability was mainly a consequence of declining real product prices and rising costs. Since the early 1990s, the fastest growing cost items have been transport and the purchase of external services in connection with information and communications technology. This reflects the growing importance of information technology in general and the globalization of the companies' operations. Not even the high productivity of Finnish paper plants could compensate for the low prices of products. (The Finnish Paper Industry, pp 32, 42.) Competitive advantages and competitiveness had to be sought elsewhere. This was the situation in 2005 when Finnish Forest Industries Federation entered into negotiations with the Finnish Paper Workers' Union about a new collective agreement.

### **Illegal Strikes, Lockout and a New Collective Agreement 2005-2008**

The bargaining process between Finnish Forest Industry Federation (FFIF) and Finnish Paper Workers' Union, which culminated in the lockout in May and June 2005, is quite an extraordinary chain of events in Finnish industrial relations. After months of futile negotiations FFIF imposed a lockout in order to speed up the negotiations. The lockout was a reaction by FFIF to the collective action organized by Finnish Paper Workers' Union. During the overtime ban which started on 30 March, Finnish Paper Workers' Union organised more than 120 shutdowns of paper machines, of

which 45 were illegal strikes. In addition, Finnish Paper Workers' Union arranged a nationwide illegal strike which lasted 4 days and ended on 2 May

The lockout in Finnish paper plants in spring 2005 and the new national collective agreement for the paper industry were largely a consequence of globalization. The result of the lockout was a new collective agreement, which was a compromise between the employers and the powerful paper workers' union

The major demands of Finnish Forest Industries Federation in spring 2005 and the results of the negotiations contained in the national collective agreement concluded at the end of June 2005 are outlined below:

The Federation wanted to end the shutdowns of paper machines over the Christmas and midsummer holiday periods, during which paper machines were maintained by their own workers and those who were subcontracted. The maintenance of paper machines was very expensive, because the employees received a 200 % premium for working over these holidays in other countries paper machines are running even at Christmas and midsummer and the maintenance of paper machines is carried at other times, when it is less expensive to the employers. According to the national collective agreement, the above-mentioned shutdowns were ended. This outcome of the negotiations was very important to the employers, because maximizing the running time of machines very much affects the productivity in a continuous process industry such as paper making. At the same time the outcome made possible less expensive maintenance of paper machines than earlier.

In addition, the employers wanted unilaterally to make some minor changes to working times. The final result of the negotiations was a compromise. The minor changes to working times could be made if employers and paper workers' union reached a local agreement on these issues. The employers wanted to abolish the employees' right to sick pay for the first two days of illness. This demand can be understood, when we take into the account the high rate of sickness absence (on average 117 hours per employee in 2004). In Germany and United States, the absence rate is half of that in Finland. The demand put forward by employees was rejected both by the paper workers' union and the national conciliator.

The employers wanted to increase unilaterally the outsourcing of work. The use of subcontracted work has been much rarer in paper plants than in other industries in Finland because the paper workers' union has been powerful enough to set the terms for outsourcing work. The goal of the employers was to free themselves from the control of paper workers' union. However, the employers were unable to achieve this goal, because issues concerning outsourcing, are under the new collective agreement, a matter of local bargaining and agreement between the employers and the paper workers' union. In addition, the new collective agreement specifies those situations under which it is possible to outsource work.

The outsourcing of work was the most difficult issue to resolve during the negotiations. The assistance of the central confederations of both employers and blue-collar workers were needed in order to reach agreement over the contested issue of outsourcing.

### **The Restructuring of the UPM-Rauma Plant**

The collective agreement for the period 2005-2008 gave some respite from problems of profitability in the Finnish paper industry, but it did not remove the problems. In spring 2006, UPM-Kymmene, one of the large Finnish paper companies, started to restructure its operations at 10 plants in Finland in order to improve its operations. The restructuring consisted of closing down the Voikkaa plant and paper machines at various plants. Altogether 672 employees (of whom 575 were at Voikkaa) were given notice and a further 1885 employees were affected by other means that were used to reduce the work force. These means included mostly an unemployment pension scheme, retirement pensions and to some extent outsourcing. We studied the restructuring of the Rauma plant. According to restructuring plan the personnel at Rauma plant would decrease over a three

year period (2006-2008) by 173 employees from a total of 1096 employees (in May 2006). There were no lay-offs at Rauma, but the restructuring included only retirement pensions, unemployment pension scheme and the outsourcing of cleaning and the major part of laboratory operations. There were 13 outsourced cleaners and 20 outsourced employees in the laboratory.

The restructuring plan was influenced by co-operation negotiations which took place between the parties in spring 2006. The paper workers' union at the Rauma plant refused to accept any redundancies but it had to accept unwillingly the implementation of an unemployment pension scheme and the outsourcing of cleaning and the major part of laboratory operations. The terms of employment of the outsourced cleaners were affected both by the Finnish Contracts of Employment Act and by the paper workers' union.

The outsourcing of cleaners and part of the laboratory employees was a "transfer of undertaking" which means a situation "where the operational entity of an enterprise, corporate body or foundation is transferred to another employer who without any lengthy interruption continues the activity concerned more or less as it was". In the case of a transfer of undertaking, "the employer's rights and obligations are transferred to the new employer. The employment relationships are not interrupted: the employees are transferred to the new employer as pre-existing employees. This means that their acquired rights are retained". (Kairinen 2003, 101.) Concretely, this means the terms of employment set by existing collective agreement are still valid even in the new enterprise as long as the collective agreement is valid. In the Finnish paper industry, the collective agreement is valid until 31 May 2008.

In addition to these minimum rights set by Finnish labour law, the local paper workers' union managed to negotiate one extra benefit for the cleaners: the major part of collective agreement will remain valid until 31 December 2009. The local paper workers' union shop steward thought that he had no alternative but to accept outsourcing and negotiate the most favourable terms of employment possible for cleaners in the new firm. Otherwise the employer would have dismissed the cleaners and their fate would have been worse than in the case of outsourcing.

However, the cleaners were outraged and disappointed with the union. They thought that the union should have prevented the outsourcing and both the union and management had "sold them out" to the new employer. This outrage was very concretely felt in a focus group discussion with researchers just before the outsourcing at the end of September 2006.

After the focus group discussion 13 cleaners completed our survey questionnaire in the beginning of October 2006. In addition, we interviewed the shop steward and personnel manager of the Rauma plant in May 2006, and in May 2007 the team leader of the cleaners, the shop steward and the safety representative of the Rauma plant. The team leader was not the foreman of the cleaners, but an experienced senior cleaner.

The work culture of the cleaners heavily influenced their experiences of a transition from one company to another.

The work culture of the cleaners ran counter to the demands of their new employer causing an increase in stress and sickness absence during the cleaners' first 7 months in the new company.

The cleaners also expressed their very pessimistic expectations concerning the content of their work, and these were again expressed in the survey questionnaire completed just after the focus group discussion. In brief, the cleaners were terrified of the future. The great majority of them thought that time pressure, work load and stress would increase under the new employer. Their pessimistic expectations were based on the diminishing number of cleaners and on the increased area to be cleaned. They knew that only thirteen of them would be employed by the new employer and that 6 cleaners would move to retirement pension or unemployment pension scheme.

In the new firm the rate of sickness absence among the cleaners began to increase: between December 2006 and April 2007 the majority of cleaners were on short-term sick leave. After this period the number of absence began to decrease. In the following I will discuss the reasons for the increase and decrease in sickness absence.

The increase in sickness absence was not surprise to us, researchers. After the focus group discussion, it seemed obvious to us that the rate of sickness absence among the cleaners would increase after the outsourcing. We thought that the work culture of the cleaners would increase stress and the rate of sickness absences because the cleaners would try to do their work as well as before, even though the number of cleaners had decreased by a third. By December the cleaners were very tired both mentally and physically.

The following points characterize the work culture of the cleaners:

1. The cleaners identified themselves with the working community of the paper plant and saw themselves as serving that community. They listened carefully to other workers' requests and demands about which spaces should be cleaned.
2. However the cleaners had a great deal of autonomy. The cleaners decided for themselves such matter as where to clean, what methods to use and the quality of cleaning, and they used their own discretion when considering the requests and demands of the other employees.
3. The mutual help of cleaners was an integral part of their work. They did extra work in order to do the work of their fellow workers who were for some reason (e.g., sickness) off work.

The outsourcing changed neither the work culture of the cleaners nor the expectations of the other workers concerning the work of cleaners during the first six months in the new company. The cleaners tried to do their work autonomously, helping each other and serving the other employees as if they still were part of the working community of the paper plant. This was stressful stress for cleaners in a situation where the number of cleaner hands had decreased by a third. Furthermore, helping each other and serving the other employees in the plant as well as before had to be done unofficially because the outsourcing of cleaning work had diminished the autonomy of cleaners and changed the social relation between the cleaners and other employees.

The autonomy of the cleaners had reduced because the commercial contract between the paper plant and cleaning company defines in detail the services be bought and sold. In other words, it defines the areas to be cleaned and how often and well they are to be cleaned. These detailed directions, which follow certain general standards in the cleaning business, are designed by white-collar workers in the cleaning company. These detailed directions are an example of the separation of planning and execution of work, which characterizes Taylorism. As researchers, we tried to start an action research which would have involved cleaners in the planning of the work. We received no official response from the cleaning company to our initiative to start this action research.

Any other cleaning service than those stated in the above-mentioned detailed directions would be a matter of a new transaction between the paper plant and the cleaning company. The management of the paper plant (the so called contact person) decides whether to buy these extra services. However, the employees of the paper plant and the cleaners can make suggestions about these extra services. It took 7 months (from October 2006 to April 2007) for the cleaners and employees of the paper plant to learn the new rules of the game:

"Previously we did everything. If we saw that some floor needed waxing or window washing, we did them. We did everything what the men asked us to do. Now we wait for the paper factory to order and buy this work. We are not allowed to do such jobs until then. It took some time for us to get used to neglecting to wash windows and wax floors. In the beginning even the other employees in the paper plant did not understand why we did not work in the old way and they criticized us. Now they don't criticize us any more. Now our situation has improved. Now the other workers know that they have to talk to contact person of the paper plant. We are now subcontracted workers in the paper plant. The subcontracted workers do only those jobs, which somebody orders and pays for". (The team leader of the cleaners)

When the cleaners and the employees learnt the new rules of the game, the cleaners' stress began to decrease. Since April 2007 the rate of sickness absence have gone down dramatically.

## **DISCUSSION**

The results lend support to ideas of craftsmanship in new capitalism developed by Richard Sennett, who has given a new broader meaning to the classical notion of craftsmanship. The classical notion denotes the pursuit of quality in making some physical object, for instance watch, pot, wine, chair and wine. The classical notion is too narrow. An embracing notion of craftsmanship refers to “doing something well for its own sake”. Even seemingly unskilled laborers can realize this principle in their work and Sennett refers to a study of cleaning workers, who at the end of the day felt pride for having cleaned a house well. The cleaning women of paper factory had a same kind orientation to cleaning work as the cleaning women described in the study referred by Sennett. The embracing notion of craftsmanship makes it easier to understand the response of cleaning women of the paper factory to the outsourcing of their work. Cleaners wanted to do their job well although the outsourcing diminished the possibilities of doing well the cleaning work.: “Craftsmanship – doing something well for its own sake - sits uneasily in the of flexible capitalism” (Sennett 2006, 105). In order to survive as outsourced workers cleaners had to give up their traditional work culture and orientation to work, which were based on the idea of craftsmanship.

## **CONCLUSIONS**

In the following we will summarize the results to two sets of conclusions. The first set deals with the organization and the characteristics of cleaning work in the paper plant as the outcome of the whole outsourcing process and the second set deals with the institutions involved.

When we take the work culture of the cleaners of the paper mill as a standing point we find out that their work was forced to transform from craftsmanship to cleaning services as a standardized commodity. This change was connected, or led to two other changes: to the loss of autonomy in work and to the loss of former working community. In the situation of the cleaners who had originally grown to be very committed and loyal to their employer this was a too big change. The final impact may be described as a decrease in the meaningfulness of work.

Although the outsourcing process led to drastic changes when we think about the cleaning work from the point of view of the cleaners' feelings and experiences, we cannot ignore the fact the Finnish labour law and The Paper Workers' Union protected the rights of the cleaners. The terms of their employment and their future wages for a considerable length of time were secured to a much higher level that would be case in the usual cleaning business, without the strong bargaining power the Paper Workers' Union.

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