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# Human resource management in Finland

Human resource  
management  
in Finland

Sinikka Vanhala

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## Introduction

This article aims at describing the state-of-the art of HRM in Finland and also tries to identify the “Finnish model” of HRM in the context of the major economic, social, political and attitudinal changes which now confront Finnish society – not excluding all the preparations for the country’s EU membership, the negotiations for which were carried through against a very tight time schedule. The enduring Finnish-specific features of HRM are discussed, and the (so far) short-run effects of the EU membership are evaluated.

HRM is a subject that cannot be studied in a laboratory environment. Especially when evaluating a single national case by separating it from its historical or other contexts, we find ourselves dealing with a detached list of HRM activities, which can be found in every HRM textbook: people are recruited, motivated, transferred and fired; salaries are paid and other HRM responsibilities are taken care of. In this sense, Finnish HRM does not differ from German or French human resource management. It means that when evaluating the state-of-the art of any HRM, attention must be paid to the whole system, an approach that numerous recent studies on HRM (e.g. Tyson *et al.*, 1994) emphasize in highlighting the importance of economic and social change in explaining different models of HRM, and the diversity of HR practices. Typical and distinctive to the Finnish system has been the mix of social, political and employers’ interests in the collective bargaining system. Figure 1 illustrates the main factors (or characterizing features) related to the formation of Finnish HRM.

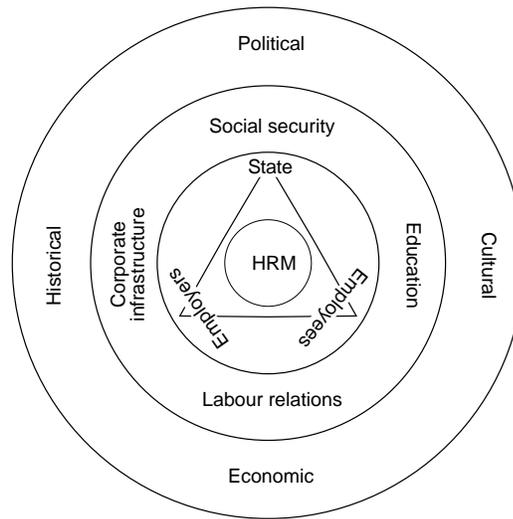
Finland, together with the other Nordic countries, shares the image of being a welfare state with high social security, gender equality and solidarity in wage policy as well as an expansion of the public sector. The main characteristics of the Finnish welfare system, which is similar to those in other Nordic countries, are indeed its universality and generosity. Unlike in continental Europe, the Finnish social security system is not employment-related. The legal obligations of employers are marginal from the point of view of the whole system: the prominent social objectives of the welfare system are still being attained – but at a cost that the abruptly-diminished number of tax payers can hardly afford any more.

A typical Nordic feature, particularly visible in Finland, is the strong position of the trade unions and the high unionization rate. Compared with other Nordic countries, Finland has been much more strike-prone, indicating stronger class conflicts, but also a different labour relations culture.

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**Figure 1.**  
Factors impacting on  
the formation of HRM  
in Finland

Currently, there is a clear dualization process occurring in Finnish society. The implications of the phenomenon are, for example:

- the principles of universality and generosity of the welfare system versus the demands for the profitability and privatization of the public sector;
- the strong and profitable export sector versus the suppressed domestic sector;
- the employed versus the unemployed.

Or, in human resource management:

- those employees with a permanent and whole-time employment relationship versus those with a temporary or other atypical job assignment with high insecurity;
- the simultaneous need for flexibility and stability.

The key words to the Finnish HRM seem at present to be “dualization” and “flexibility” – or, perhaps, “flexible dualization” or “dualist flexibility”.

The roots of the dualization can be traced far back to the history of the nation and Finland’s position at the edge of Scandinavia, sharing a border of over 1,000 kms with Russia. In historical terms, this has meant first Swedish and later Russian domination over Finland until 1917, when Finland declared its independence. This special position between Eastern and Western cultures and domination have left many dualizing traces on Finnish culture, politics and people’s way of thinking.

The most prominent implications are two state churches (“folk churches”): the dominant Lutheran Church, and the Greek Orthodox Church in the Eastern part of the country; and two official languages: Finnish and Swedish. Finland’s special position has been manifested in the role of mediator between East and West, such as the CSCE meeting in Helsinki in 1975, and also in “Finlandisation” (Singleton, 1981), which originally was used to refer to Finland’s post-war politics adopted to

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survive *vis-à-vis* the Soviet Union. The term “Finlandisation” involved a connotation of subservience with implications in political, cultural and economic activities. Along with the Soviet *perestroika*, “Finlandisation” began to lose its relevance.

## **From personnel administration to HRM**

### *An overview*

The debate on personnel management versus HRM has exercised the minds of practising managers and academics of the field in the Western industrial countries, not excluding Finland, for over ten years. Some academics, e.g. Tyson (1995), refer to a paradigmatic shift, i.e. a shift from a personnel management paradigm to a human resource management paradigm, and in Finland also, the academics in the field see the shift as paradigmatic. There are, however, in Finland also managers and academics who find it difficult to identify clear differences between personnel management and HRM (Armstrong, 1987; Fowler, 1987). Some refer to the shift merely in language, i.e. a shift from personnel management terminology to HRM terminology (Legge, 1995) with only the name of the former personnel department changed into HRM department.

Generally speaking, in Finland, prior to the advent of HRM, personnel administration was focused on rather discrete and relatively technical activities such as recruitment and selection, compensation, and training of employees (Palm and Voutilainen, 1970), while the content and nature of human resource management were not so clear. The main features separating HRM from personnel administration/management are as follows (Legge, 1989):

- Personnel administration focuses on the management and control of subordinates, while the focus of HRM is the management team.
- A focus on the role of line managers and the profitability orientation normally characterizes HRM but not personnel management.
- The management of organizational culture is related to HRM, but plays no part in personnel management.

As a conclusion, Legge argues that HRM is more centrally a strategic task than personnel management.

Irrespective of the problematic academic debate, the management of personnel issues has changed since the early beginnings of institutionalized personnel administration. The modern cost-efficient human resource management, with close links to corporate level strategic planning, certainly differs from the operational level administration of daily personnel routines. On the other hand, it is true that no employing company can get rid of personnel routines, except by externalizing them.

The main stages of institutionalized personnel management are quite similar in most of the Western industrialized countries. A widely-known classification by Nkomo (1980) separates three stages: a “defensive stage”, a stage of “derived demand” and a “strategic human resources management stage”. The same major stages are identified in Finnish personnel management, too. However, a somewhat

more sophisticated classification (Laukkanen and Vanhala, 1992; Lilja, 1987) has established its development:

- the initiation phase;
- the pioneering phase;
- the self-criticism phase;
- the strategic HRM phase; and
- the decentralization and survival phase.

*The initiation phase* (“*arousing interest in personnel issues*”). In the “initiation phase”, after the Second World War, it was exceptional that a company had a specialized personnel manager. Personnel issues were seen mainly as a cost, and the general attitude was defensive. The main attainment of this phase was in arousing interest in personnel management and personnel issues in general, and making them more widely known.

*The pioneering phase* (“*personnel policy phase*”). The history of the specialized managerial practice in the area of personnel management and industrial relations in Finland dates back to the early 1970s when industrial companies were struggling with partial labour shortages, high labour turnover and wage drift. The first Finnish book on personnel administration (Palm and Voutilainen, 1970) was published, covering the basic principles and tasks of personnel administration. A new era, which is called a pioneering phase, was beginning. This phase was characterized by a strong faith in the strengthening position of the personnel function in companies. One of the main targets was to systematize expert personnel management and personnel thinking, and to create a unified personnel policy in firms. In this relatively short period of time, personnel issues established the legitimacy of their position; new personnel departments were established, personnel policies were created and research efforts were directed at personnel issues.

*The self-criticism phase* (“*from administration to management*”). After the first energy crisis in the late 1970s the positive trend turned downwards. Attitudes towards personnel management became critical, mainly originating from inside firms. Some companies closed their personnel departments and many activities were reduced. The personnel function was criticized as creating (not reducing) costs; even the term “personnel administration” was criticized as referring too much to bureaucracy and inefficiency. In this phase personnel “administration” was changed into personnel “management” in Finnish companies as well as in the terminology of academics of the field, reflecting the changing focus of personnel work and the need for raising the status of personnel issue.

*The strategic HRM phase* (“*from personnel to human resources*”). In the mid-1980s the situation started to change again, as new doctrines emphasizing the relationship between human resource capabilities and the strategic success of the organization reached practising managers and HRM researchers in Finland. The status of the HRM function as well as the level of HRM investment rose higher than ever before. With the economic boom of the late 1980s, labour shortage was seen as the primary threat facing companies, and all HRM activities increased along with the number of HRM specialists.

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*The decentralization and survival phase* (“from personnel function to line responsibility”). Instead of a labour shortage, month after month, into the 1990s, the unemployment figures continued breaking prior records. In this situation, the position of HRM function began to change. The management of human resources is even more strategic than in the late 1980s, but the challenges which the HRM function is actually facing are different. This emerging phase can be characterized by cost-effectiveness, increasing line responsibility, the survival of the HRM function, the flexible use of labour, and the dualization of labour force.

The position of the HRM function and HRM issues in general are related to the economic and employment situation, on the one hand, and to corporate level issues, on the other hand. There are clear indications that employers tend to invest in HRM and human resources in a good financial situation, and tend to disinvest when financial problems increase. At the national level, there is a correlation between HRM investment and/or the priority of HRM function and the general economic situation, although there are wide variations at the company level.

#### *Flexible use of labour and increasing labour dualism*

Finnish companies and working life underwent a rapid technological and economic structural change in the 1980s and the early 1990s. The most prominent features of the change process have been the internationalization of companies, increasing investments in R&D and new product technology, as well as the adoption of new labour policies and the reorganization of operations. The prior paternalistic values of high job security and, in some cases, excellent personnel benefits and a traditional work culture gave way to cost-effectiveness in HRM issues. Even those last “monuments of paternalism”, the monopolistic state-owned companies, such as Alko (alcoholic beverages), Imatran Voima (electric power generation and distribution) and Valtionrautatiet (the national railways), have been compelled into reorganization and reorientation. In the public sector, this involves the introduction of a results management system (reminiscent of MBO). With these organizational and environmental changes, a new employment strategy was beginning to emerge, including features of the flexibility model first described by Atkinson (1984). Traditional employment relationships are being replaced by part-time and/or short-term contracts, and the need for flexibility is emphasized in work arrangements, working hours, wages and salaries as well as in hiring and firing.

The conceptualization of Atkinson’s flexibility model has been criticized in general, as well as its applicability in Finnish working life (Lilja *et al.*, 1990; Penn *et al.*, 1991; Pollert, 1988). However, the model is applied widely in Finnish literature on HRM and working life, being also termed a “dualistic” employment model, because the emerging flexible employment strategy appears to divide the workforce into two main categories, permanent and contingent employees, with all the characteristics of labour market dualism.

#### **HRM in the Finnish national and industrial context**

Human resource management is closely related to the size and other factors of the company (such as its economic performance, type and culture) and the industrial and occupational structure as well as to the general economic situation of the

country. The Finnish business system is characterized by the domination of the forest sector, the high proportion of small companies and a traditional, relatively large state ownership of enterprises. The deep recession of the early 1990s has strongly affected the profitability of companies and, hence, their management of human resources.

*Sectors, companies and the occupational structure*

The economic infrastructure is simple in Finland. The power generator of the Finnish economy has been the forest sector, with the sale of forest products and pulp and paper machinery all over the world. Due to its importance, Finland's main export sector, the wood processing industry, has had an impact on national economic policy. It has also been the pattern-setting industry, in social terms, for many characteristics of the Finnish industrial relations system (Lilja, 1992) and also for many innovations and procedures in the areas of personnel policy and HRM. Other relatively important branches of Finnish industry are engineering (including electronics), chemicals, textiles and clothing, and the basic iron and steel industries.

Companies in Finland tend to be small. According to *Statistics Finland* (1995a), in 1993 the total number of companies in Finland was 296,000 of which 104,000 were farms (agricultural entrepreneurs) and approximately 192,000 conventional companies. Typically, conventional companies are very small, 86 per cent employing fewer than five persons and in total 92 per cent employing fewer than 50 persons. Only 0.1 per cent are classified as large in Finnish terms with over 500 employees, and only 96 companies had over 1,000 people on the payroll in 1993.

The other typical feature is a relatively large state involvement in the business sector through direct ownership of enterprises. State-owned companies employed 7.5 per cent of all workers in 1992. In transport and communications the figure was 41 per cent, and 16 per cent in manufacturing and energy (OECD, 1995a). The state-owned manufacturing and energy sector companies are currently listed for privatization, and the Finnish government has loosened regulation of the alcoholic beverage industry and the telecommunications market.

Not only the state-owned companies but also the whole public sector have undergone radical changes. Previously, the expansion of the public sector in Finland was closely related to the construction of the Nordic-type welfare state. Taking total public spending as a share of national GDP, Finland rose from 13th place in the OECD in 1980, to sixth place in 1991 (Naschold, 1995). The expansion of the public sector came to an end with the economic recession. The privatization of the state-owned companies and the rationalization of the public sector have been dramatic and challenging learning processes not only for managers and employees of these sectors but also for HRM specialists. They have faced individual level anxiety and frustration in trying to balance the demands in headcount reductions and efficiency on the one hand, and individual level problems of losing their job or being forced to be transferred into another task or unit on the other hand.

Finland has changed in 40 years from predominantly an agricultural economy to a modern industrial and service society. Today nearly 60 per cent of wage earners are employed in the service sectors – of which the public sector accounts for more

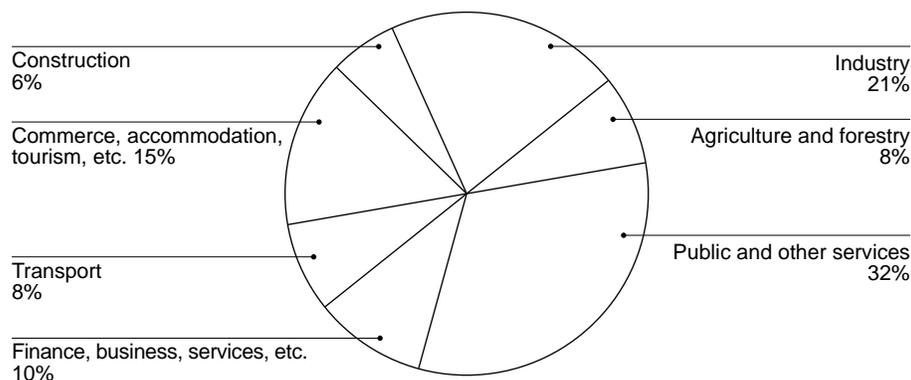
than half, only one-fifth in industry and less than 10 per cent in agriculture and forestry (see Figure 2) (*Statistics Finland, 1995b*).

Along with a change towards a service society, the occupational structure has changed from blue-collar to white-collar domination. The number of white-collar employees has risen from 700,000 in 1970 to 1,200,000 in 1990, while the total number of blue-collar workers has decreased slightly from 700,000 in 1970. The growth of the number of white-collar employees is related to two societal level trends in Finland: expanding public sector and women entering into the labour force. The construction of the Nordic-type welfare state offered job opportunities especially for women who were increasingly entering the labour market. The proportion of women employees rose from 43 per cent in 1970 to 47 per cent by 1980 (Lilja *et al.*, 1990), being 52 per cent of wage earners in the early 1990s.

*Recession and unemployment*

The Finnish economy is now recovering from its deepest and longest recession since the Second World War. Real GDP fell by almost 15 per cent and the unemployment rate rose from 3.4 to 19 per cent in three years from 1990 to mid-1993, reaching the second highest level among the OECD countries. Real earnings decreased in 1992-93 by 10-20 per cent because of devaluations, new taxes and inflation. The scenario of continuous growth and increasing prosperity, which formed the cornerstone of the social discourse of the 1980s, turned out to rest on an untenable basis.

The process leading to the recession started with the deregulation of financial markets in the mid-1980s. The latter set off a strong credit boom, which provoked sharp balance sheet adjustments in the private sector and a severe banking crisis (Santamäki-Vuori, 1994). These incidents created the domestic bases for the coming slump, which was exacerbated by external shocks: the recession in the world economy and the collapse of Finland's trade with the former Soviet Union. The positive scenarios changed into a growing budget deficit and mounting public debt, mass unemployment, a gradually deteriorating welfare system and the exceptionally high tax burden on wage earners. The government of that time has been under criticism for furthering the downturn by its political decisions which



Source: *Statistics Finland (1995a)*

**Figure 2.**  
Employment in Finland  
by main sector, 1994

involved the suppression of domestic demand, resulting in both exporting and domestic companies encountering severe financial problems.

Within a few years nearly half-a-million net jobs were lost in a country of only five million people, partly due to the collapse of firms, partly because of rationalization in the public sector and the labour cutbacks in firms in general. The unemployment compensation system has been accused of having some effect on unemployment at the individual level. In some cases high compensation does not provide incentives for the unemployed to find and accept employment; instead, they may offer an opportunity to decide between working and non-working. There are also some indications of increasing "moonlighting" among the unemployed. The missing half million jobs are, however, an undeniable fact today. The labour market policy of the former centre-right wing coalition has been described as anything but logical and consistent (Bruun, 1994). Instead of introducing a plan for the redistribution of work in a situation in which a fifth of the labour force is out of work, governmental action worked in the opposite direction. Among other measures, the retirement age has been raised and working hours increased in several other ways, e.g. by prolonging the summer working hours in the public sector. The abolition of certain restrictions on employing young people, and allowing increased overtime work and greater flexibility in scheduling working hours have had a similar depressant effect on the employers' need to recruit new employees.

The present strategy followed by the Finnish authorities, emphasizing a non-inflationary and export-driven recovery, so far has had only minor effects on unemployment rates. The export boom, starting in 1993, has mainly benefited manufacturing, while the domestic sectors of the economy continued to weaken through the same year with their output stabilizing in early 1994.

#### *Distribution of unemployment*

In 1994, the average unemployment rate was 16.7 per cent for women and 19.9 per cent for men (*Statistics Finland, 1995b*). Even though the unemployment rate for men is higher, disguised unemployment is more common among women (*Statistics Finland, 1993*), the majority of persons included in this predicament being students and housewives. Until recently, the unemployment statistics had been favourable for women, because the effects of the recent recession initially affected employment in the male-dominated industrial sectors. Recently, the female-dominated public sector has been the target of rationalization and related labour reductions, and the unemployment rate of women has exceeded that of men, being in July 1995 19.5 per cent for women and 19.1 per cent for men according to the Ministry of Labour.

One of the national worries in Finland is the high unemployment of young people who, compared with other age groups, have been hit particularly hard by job losses, and who show a reducing labour force participation rate. In 1994, only 41 per cent of people in the age group 15-24 years were included in the labour force compared with 47 per cent two years earlier (*Statistics Finland, 1995b*). In particular students, who previously used to combine studies and paid work, have had to choose full-time studies again. The debate on the "lost generation" (from the point of view of working life) has continued for the past few years with marginal solutions to the problem. One of the efforts to increase the employment of young people is to allow companies to pay them under the minimum wage level. More traditional measures,

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based on the 1987 Employment Act, have been to provide either temporary jobs or training for young people under 25 years after an unemployment period of four months.

The unemployment rates vary according to the level of education. In 1994, the unemployment rate was 24 per cent for those with a basic education, while those with a higher education remained at 8 per cent. Yet, despite the unemployment rate of almost 20 per cent, there are some implications of a simultaneous labour shortage or rather, skill shortage. It is partly due to biased education and training policies and partly to the high level of unemployment benefits and certain peculiarities related to the compensation system. One peculiarity much criticized is that, after a duration of 500 days, the unemployment insurance benefit will restart at the same level as before if the unemployed person takes subsidized work lasting up to six months. In some cases, for instance in construction, the unemployment benefit, based on top wages of the economic boom, may be higher than wages paid today. Companies are increasingly reporting difficulties in recruiting people for certain tasks, such as those with low status, wages not competing with unemployment compensation, or those presupposing some special expertise, often related to new technology or uncommon foreign languages.

### **Labour relations in Finland**

#### *The contractual basis of employment relationships*

Labour legislation in Finland has been developed through co-operation between government and the labour market parties. Historically, four major stages can be identified. They are in the 1920s, in the mid- and late 1940s, in the early 1970s and at the end of the 1980s (Kauppinen, 1994a, 1994b).

In the first phase, the Contracts of Employment Act, Working Regulation Act and Labour Dispute Conciliation Act were enacted. In the second phase, the Negotiating Rights Acts were enacted for state and municipal officials and general agreements laid foundations for collective bargaining. In this phase, the Collective Agreements Act was reformed, and the Labour Court Act, Production Committee Act and several other laws were passed.

In the third phase, in the early 1970s, several acts were renewed or enacted. These were the Contracts of Employment Act, the Employees' Severance Pay Act, the Labour Protection Supervision Act, the Co-operation within Undertakings Act (the Co-operation Act), the Study Leave Act and Occupational Health Care Act. The Co-operation Act is considered as the most important piece of labour legislation in Finland (Bruun *et al.*, 1992, p. 72) by moving Finnish labour market relations up to a new level. The law replaced the inefficient Production Committee Act and offered employees an opportunity to participate in decision making. Employee expectations were high and disappointment inevitable; the law did not open up real industrial democracy, which was the focus of debates in the 1970s; instead, it offered more information than opportunities for real decision making (e.g. Tuorinsuo, 1989). The law was amended twice in the next period of labour legislation.

The fourth period of labour legislation reform occurred in the economic boom of the late 1980s. The first package included laws entitling parents of small children to shorter working hours, extending the availability of "flexi-time" to all employees, and improving the opportunities of all employees to refrain from dangerous work.

In the second phase, the periods of notice were extended, improvements were made in the collective employment security of employees including part-timers, and lay-off regulations were amended. The Co-operation within Undertakings Act was also amended by changes in negotiation procedures. A third law package aimed to improve competitiveness and the proper use of human resources in companies and included Personnel Funds Act, the Employee Representation in Company Administration Act and a law extending co-operation in conglomerates. The Equality Act (the Act on Equality between Women and Men), came into effect from 1 January 1987 – years after other Nordic countries – prohibiting sex discrimination in all fields of society. The Equality Ombudsman and the Equality Board were established to serve a new enforcement machinery. The Equality Act was amended by introducing, for example, sex quotas in state and municipal committees established after 1 March 1995.

The labour legislation of the 1980s radically reformed Finnish working life. The position of employees was strengthened and their opportunities to decide over employment relationships were increased. Also boards of directors were opened up for employee representation. In Finland these changes were considered quite radical; however, compared with other Nordic countries, the change was not so radical – only reaching the same level as in other countries. Nevertheless, along with the economic recession, pressures to repeal part of the labour laws of the 1980s have increased. In particular, the employment security of employees is currently considered too strong, and the regulations concerning minimum wages have been criticized.

#### *Nordic-type labour relations system*

The Finnish industrial relations system is generally characterized by high unionization rates of both employees and employers, a corporatistic bargaining system and a high strike propensity. It is, in many respects, similar to the industrial relations system in other Nordic countries (Bruun, 1994; Bruun *et al.*, 1992; Kauppinen, 1994a; Lilja, 1992). The term “Nordic model” refers to the special ways of regulating relations in working life characteristic of the Nordic countries. Typical and paradoxical regarding Nordic industrial relations, a considerable degree of autonomy is seen on both sides of industry, and simultaneously a high level of state intervention (Goetschy, 1994). From the managerial point of view, the system offers a high level of predictability concerning employees’ collective behaviour and also a framework for the development of personnel policy issues in companies.

#### *High unionization rates*

The unionization of wage-earners has reflected the economic and political development in Finland, and also the country’s relationship with the former Soviet Union. Today, the unionization rate of wage-earners is 90 per cent, which includes retired, student and non-paying members. The unionization percentage covered by collective agreements is 72 per cent (Kauppinen, 1994b). In an international perspective, a high percentage of employers are also organized. Virtually all major companies are members of the employer organizations while smaller companies are more seldom organized (Köykkä, 1994).

The primary goal of the Finnish employee organizations is to promote the economic, professional and legal interests of workers, and all central organizations have declared themselves politically non-aligned. In practice, however, the Central Organization of Finnish Trade Unions (SAK) and the Confederation of Salaried Employees (STTK) are run by the Social Democrats, and the Confederation of Unions for Academic Professionals in Finland (AKAVA) by the Conservatives. The largest union is the Central Organization of Finnish Trade Unions (SAK) with 24 member-unions and over 1.1 million members, including members from industry, the service sector and the public sector. A third of its members are white-collar employees.

In the bankruptcy boom of the early 1990s, the central organization of white-collar employees, the Confederation of Salaried Employees (TVK) with approximately 400,000 members, collapsed in 1992, when the investment company owned by TVK encountered financial problems. Most of the member unions of the former female-dominated TVK joined the male-dominated Confederation of Technical Employee Organizations (STTK), which was then reorganized in the autumn of 1993 and renamed the Finnish Confederation of Salaried Employees. With over 600,000 members in 1994, this merger broke the former gender-based segregation of central organizations for white-collar professionals.

The third central organization for employees, the Confederation of Unions for Academic Professionals in Finland (AKAVA) with over 300,000 members, is mainly organized according to the educational background of its members, the unifying factor being the academic degree.

The unionization of wage earners is paralleled by the organization of Finnish employers, whose main targets have been to maintain labour market peace through collective agreements, to promote company competitiveness and to influence economic, labour, social and educational policy (Kauppinen, 1994b). There are currently three main groups of employers' organizations: the Confederation of Finnish Industry and Employers (TT) with 27 member unions in 1993, the Employers' Confederation of Service Industries in Finland (LTK) with six member unions and four public sector organizations covering employers in municipalities, the State, the Lutheran Church and the privatized state institutions.

#### *Corporative bargaining relations*

The Finnish industrial relations system is characterized by corporatism, connoting a close connection between the political and labour market systems. The role of the Central Union of Agricultural Producers and Forest Owners (MTK), with its own lobbying organizations, has been central in the Finnish corporative negotiation system. The corporatist system is described as triangular (Kauppinen, 1994a), with the base sides being labour (the employee organizations) and capital (the employers' organizations) and the State represented by the government at the apex of the triangle.

The Finnish corporatist labour market system comprises three levels of negotiations (Kauppinen, 1994a, 1994b). In the first topmost phase, the central organizations of employers and employees fix their long-term targets and strategies and define their political direction. The government then makes its own choices in the light of

economic, monetary and social policy. After this, when the unions and the employers' side have decided to adhere to the central-level agreement, detailed bargaining and agreement take place at branch level. Negotiations on the interpretation and application of the agreement are left to the local level, i.e. local unions and companies and work sites. Often, much local-level bargaining meant routine bargaining on pay and other terms of the collective agreement, interpreting and implementing agreements and labour law. Such broad issues as co-operation with companies, management style and work organization are also spelled out at the local level.

One distinctive feature related to the Finnish labour relations, is an exceptionally high level of strikes (Lilja, 1992). This has been due partly to breakdowns in the collective bargaining system, with unions breaking away from the centralized agreements and organizing strikes in order to obtain better agreements. For instance, the member unions of SAK have two weeks in which to accept or reject the agreement negotiated at the central organizational level. In many cases, the only way to obtain a better agreement at the industry level is to start a strike.

#### *Towards cartelization and decentralization*

For a quarter of a century, from 1968 to 1992, the Finnish industrial relations model remained almost unchanged. During the recession, trade unions viewed with understanding and moderation the inevitable adjustments relating to the economic situation and changes in working life. The trade union movement first accepted, without any significant protest, decreases in salary and considerable tax increases. Then, with increasingly politicized demands from the government and employers, the trade unions changed their attitude radically and twice (in 1992 and 1993) threatened the government with a general strike. During this struggle to render working life more flexible, relations between unions and the central organizations were transformed into cartels. The discussion concerning the advantages and disadvantages of the cartelized unions is ongoing (Kauppinen, 1994b). Cartels are considered an economic way of organizing, and are seen as promoting co-operation between unions, making them more responsible for their decisions. The other side of the coin is that cartels involve a number of risks to wage earners, reducing the power of central organizations, decentralizing decision making and the supervision of interests.

The idea of such decentralization of the bargaining system was adopted in Finland only after a delay in comparison with other Nordic countries. It was not until Soviet trade collapsed that Finnish employers started to demand changes in the bargaining system in order to gain the greater competitiveness, effectiveness and flexibility necessary in adjusting to market fluctuations. The collective agreements of 1993 were signed at union level, and in the last few years local administration in the public sector began to decentralize decision making to the local level. In particular, according to many collective agreements, the regulation of working hours is now to be settled primarily at the local level.

#### *Employee participation*

The formal or representative participation system in Finland is based on collective agreements and labour laws. Employees' opportunities for participation in decision

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making in organizations have been increased through laws including the Labour Protection Act, the Co-operation within Undertakings Act, the Personnel Funds Act and the Employee Representation in Company Administration Act (Kauppinen, 1994a, 1994b). Participation is centred on the shop steward system which dates back to 1946, and is based on the general agreement between the labour market parties. The shop steward system is strongly established in Finland, while other bodies, such as works councils, have never taken root. In 50 years, employee participation has broadened from shopfloor to a strategic decision-making level.

In the 1990s, the emphasis of discussion on participation has shifted from representative to direct participation, using such forms as various group and team work models, project groups and branch meetings. The main reasons for the shifting emphasis in employee participation are seen to be related to the adoption of new organizational and management models, such as lean production and total quality management (TQM), increasing competition and the globalization of markets as well as the decreasing power of trade unions. Today, both employees and employers see the advantages of direct participation. From the employers' point of view, all forms of participation which promote employees' commitment and motivation are important.

### **Human resource management in Finnish companies**

#### *Organizing the HRM function*

As is found in most countries, the position of the personnel/HRM function and of personnel issues in Finland is dependent largely on the type of company and its business or industrial sector. Logically, the organization of the personnel function is also related to company size. In very small companies, which form the vast majority of companies in Finland, there are no specialized functions at all. In most cases, HRM, as well as other managerial functions, are the responsibility of the manager/owner-manager. According to Finnish studies (e.g. Kivisaari and Vanhala, 1983; Lähteenmäki *et al.*, 1994), in small and medium-sized companies, personnel administration is based on legislation and collective agreements, and action necessary to guarantee that the work is progressing well, and more emphasis is put on creating a family-like atmosphere, flexibility and other non-financial forms of activities in the area of HRM. Consequently, formal studies of HRM issues in the Finnish context always show a strong bias towards large companies, where the personnel function is specialized. According to the Finnish data collected for the Price Waterhouse/Cranfield (PWC) study of HRM in Europe by Mattila and Saarinen (1992), 78 per cent of such companies possessed a personnel/HRM department or a personnel manager – a lower percentage than in Sweden, Germany and the UK. The size of the personnel function varied between one and over 25 persons, being linearly related to the number of employees. Personnel departments in the private sector were smaller than in the public sector.

The educational background of Finnish personnel/HRM managers is heterogeneous, ranging from the MBA degree to all possible types of education. The largest educational groups are MBAs, behavioural scientists, engineers and lawyers, and more than half (56 per cent) of them are women (Harala *et al.*, 1994). The personnel manager's position in the top management group is seen customarily as critical

from the point of view of the status of personnel functions and HRM issues and the actual opportunities to influence strategic level decisions. In Finnish companies, the proportion was 61 per cent in 1992 compared with 30 per cent in Germany or 84 per cent in Sweden (Mattila and Saarinen, 1992). According to the 1995 PWC survey (Mattila and Pohjansaari, 1995) there is a personnel manager in the top management group in 69 per cent of large Finnish companies.

In spite of the high percentage of companies with a specialized HRM function, the larger corporations are tending to adopt a decentralized HRM function. In many cases, a prior personnel department is closed or changed into a small consulting unit and the HR activities are transferred to the responsibility of line managers. According to the 1995 PWC survey (Mattila and Pohjansaari, 1995) the responsibility of line managers had increased in all areas of HRM from 1992 to 1995. A decentralized HRM unit only sells its expertise, and at least part of personnel administration routines is subcontracted. The decentralization of the HRM function has its advantages, mainly effectiveness, which may be attained, however, at the cost of a loss of concentration of HRM knowledge and expertise. Especially, the combination of a diversified organizational structure and a decentralized HR function involved problems of co-ordination (Vanhala and Myllylä, 1993), because independent units may not be especially interested in taking into account the corporate level effects of the unit level HRM decisions. Depending on the qualifications of line managers and their interest in HR issues, very different HR policies and practices may start to emerge, thus having a negative effect on the culture of the organizations.

Bearing in mind the very small proportion of large companies in Finland (0.1 per cent), it is not accurate to claim that decentralization of the HRM function represents a tendency – or that most Finnish companies possess a specialized HRM function. Instead, it can be argued that in practically all Finnish companies, given their size and ownership, the minimum amount of attention is given to HRM.

#### *Strategic human resource management (SHRM)*

The concept and phenomenon of SHRM are both problematic, with varying definitions and several measures being used in empirical studies. However, the main rationale for SHRM thinking is companies' desire to gain competitive advantage by integrating human resource management into business strategy and, thus, managing people more effectively. The underlying logic is a general assumption that the congruence of "fit" between organizational functions and sub-components would result in organizational effectiveness (Fry and Smith, 1987). In this tradition, the HRM system is seen to be tailored according to the demands of business strategy – as an example, Miles and Snow's (1978) prospector, analyser, reactor and defender. These so-called "fit" models are criticized widely (for a review, see Truss and Gratton, 1994). Part of the criticism is related to the lack of empirical evidence supporting the assumption that the HRM-business strategy fit would lead to positive outcomes.

In the PWC survey of larger employers conducted in 1992, more than half of organizations had a personnel strategy in a written form (Mattila and Saarinen, 1992). Among the private and public sector organizations in this study, half (49 per cent) of the companies employed between 200 and 499 people, and the other half (51 per cent) over 500 people. The planning periods in the area of HRM were one

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to two years in short-term planning and one to three years in strategic planning in 65 per cent of the private sector organizations and five years in the public sector.

According to another recent large empirical inquiry into SHRM in Finnish companies (Lähteenmäki *et al.*, 1994)[1], decisions related to HRM had to a great extent been delegated to division level, for the:

- basis of wages and salaries (56 per cent);
- selection of recruitment channel (external versus internal) (38 per cent);
- performance evaluation methods (27 per cent).

These empirical data from Finnish companies collected in the midst of the recession (Lähteenmäki and Vanhala, 1995; Lähteenmäki *et al.*, 1994) indicated there was practically no connection between human resource management and company performance. The results of different analyses supported each other in such a way that, regardless of the state of human resource management, only the recession and a change in demand for the core product (there was a distinct interaction between the two variables) had a significant impact on the development of the company's results in the previous three-year period (1990-1993).

In spite of the fact that a personnel manager/specialist is more often a member of the top management group/strategic planning group in companies than before, the management of human resources appears to be becoming less strategic and more reactive. Prior values related to personnel administration or, more recently, humanistic human resources (such as stability, commitment or security) are seemingly less or no longer valid in their previous meaning.

#### *Resourcing the organization*

In Finland, the labour strategy of companies has changed radically from a loose recruitment policy pursued in the late 1980s to an extremely tight mode. The change has come about in three phases during the recession (Vanhala, 1993). In the first phase, companies tried to get rid of all non-permanent employees, resulting in increasing labour inflexibility. The next – or simultaneous – phase involved labour cutbacks. Later, with hirings increasing again, the atypical employment model has become more widespread, with more than half of all new employment relationships being non-permanent and a slightly increasing use of part-time employees.

#### *Labour market segregation in Finland*

Generally speaking, the national labour market remains relatively cohesive in Finland, because the proportion of guest-workers has been low prior to EU accession, and refugees have so far played an insignificant role as labour. Instead, the Western type gender-based segregation of labour characterizes the Finnish labour market, both vertically and horizontally.

The labour force participation of Finnish men was 78.5 per cent in 1992, and that of older men (between 55 and 64) about 45 per cent which is among the lowest in the OECD countries, while participation rates for Finnish women (70.7 per cent in 1992) are among the highest in the world (*Statistics Finland*, 1995a; Veikkola, 1994). Women account for almost half of the labour force (48 per cent) and more

than half of the wage earners (52 per cent in 1994). Higher labour force participation rates for women can be found only in other Nordic countries where, however, almost half of the women work part-time.

The labour force participation of Finnish women is atypical when compared with their female counterparts in other Western countries. The two deviant features are:

- (1) the high proportion of mothers with small children;
- (2) the relatively small proportion of part-time employees.

Approximately 70 per cent of mothers with pre-school age children are employed; the great majority of them (86.5 per cent) work full-time. Only 11 per cent of employed Finnish women (and 6 per cent of men) hold a part-time job (Veikkola and Palmu, 1995). This is a much lower percentage than, for instance, typically 40-50 per cent in other Nordic countries (Nordic Council of Ministers, 1994) or the average in the OECD countries (OECD, 1993).

The Finnish labour market – like those in other Western countries – is segmented sharply into men's and women's labour markets. The gender segregation of labour markets is both horizontal and vertical. Men and women generally work in different industries and occupations: men tend more often to work in the private sector, while women occupy the public sector. Almost half of all women are employed in female-dominated jobs in which the proportion of women is over 90 per cent. Approximately 10 per cent of all those occupationally-active have a job in which the two sexes are represented in about equal proportions (41-60 per cent) (Veikkola and Palmu, 1995), although such non-segregated occupations represent only 7 per cent of all occupations. The gender segregation of occupations remained almost stable from 1950-1990, even though the proportion of working women and their educational level have increased. In younger age groups (under 50 years) women are better educated than men.

Women's jobs are concentrated in the reproductive sectors of the economy and those of men in the productive sectors. Women's occupations are characterized by caring and caregiving or auxiliary tasks. The proportions of women are highest (over 90 per cent) in the day-care of children, hygiene and beauty care, cleaning, and secretarial and clerical tasks. Men, on the other hand, dominate (with the proportion of over 90 per cent) in top managerial positions (Harala *et al.*, 1994), construction work, road traffic work, and metal, foundry and engineering jobs (Veikkola and Palmu, 1995). Certain qualitative differences exist between jobs held by men and women (Koponen, 1994). Women's jobs are, on average, less challenging, more monotonous and more often "dead-end" jobs compared with those of men.

In the organizational hierarchy, women normally remain in lower positions. In Finland approximately 24 per cent of upper-level white-collar employees in managerial positions are female (Veikkola, 1994), compared with 13 per cent in 1980. The majority of women managers are found in the female-dominated industries, public sector organizations and lower managerial positions. In top management, women account for just 2 per cent (Harala *et al.*, 1994), with the great majority of women managers remaining beneath the "glass ceiling". The proportion of women is

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especially low in the top management of the male-dominated sectors of the economy, for instance in heavy industry or in the largest corporations. By contrast, those few women who have managed to break the glass ceiling are visible like tokens (see Kanter, 1977). Today the largest Finnish companies seem to have realized the positive impact on the company image of a visible woman manager. Analogous with being “green”, the companies want to obtain the label of equality. A woman manager who is in the top management of a male-dominated industrial company receives much public attention, thus smoothing the corporate image.

#### *Employee recruitment and mobility*

In an economic recession, employee recruitment and mobility are closely related to each other. In Finland, there has been a remarkable change visible in recruitment behaviour of companies, from external to internal recruitment. Several large organizations have followed a policy of a ban on external recruitment and most organizations have followed this rule. The personnel policies of larger organizations have tended to continue the priority on internal recruitment already in place before the recession.

Employee mobility, which in macro-level terms is strongly related to the economic situation, has changed from a model of voluntary labour turnover to one of involuntary terminations and internal transfers. In the midst of the recession, voluntary employee turnover dipped to a minimum, compared with the peak years of almost 60 per cent annual labour turnover in industry (Vanhala, 1991, p. 250). The great majority of all terminations of permanent employment relationships recently have been either initiated by the employer or in the category of “natural loss” (retirements, deaths). As stated earlier, the proportion of non-permanent employment relations has been on the increase, which will change the structure of employee mobility. It is generally agreed that the proportion of internal transfers has been increasing, but the lack of exact figures makes comparisons difficult. The reorganization of the public sector and state-owned companies and case studies on the use of labour in the private sector indicate, however, a major change in internal transfers (Vanhala, 1993). Before the recession, internal transfers were related to employees’ prospects for career advancement or job rotation (Santamäki, 1990); today internal mobility originates mainly from the company’s need to adjust to labour reductions and recruitment bans.

Generally speaking, the use of labour in Finland is rigid due to labour legislation and the formalized employment relations system. It means that firing an individual person – no matter what the reason – is very difficult compared with mass cutbacks of employees due to economic reasons. Instead, management has enjoyed a wide degree of independence in company internal decisions related to transfers, promotions, content of work, etc. For instance, the Equal Opportunity Act has not had major effects on managers’ behaviour. It is extremely difficult to show, consequently, that a slow career advancement dates back to discrimination. In larger companies, the mass dismissals have been smoothed off by offers of financial advantages (extra salary or early retirement benefits) or the provision of outplacement services, while in smaller companies this kind of compensation is extremely rare.

*Consequences of the tight use of labour*

The tight recruitment policy involves some positive consequences, but problems too. In Finland, the use of internal transfers has been increasing and multiskilling is being emphasized. The consequences are that the career opportunities of some employees are better, having a positive effect on motivation of those in the promotion pool. Multiskilling and job rotation may also have some positive impact on motivation, but at the company level, the lack of “new blood” will become problematic in the long run.

With tightening use of labour, the quality of work life in Finland can be argued to have deteriorated. Reduced absenteeism figures indicate not only a fear of job loss but also a desire to avoid an increasing workload for peers or the employee him/herself after returning from sick leave; so people keep on working while they are sick. With increasing workloads, human resource management has encountered new problems, such as “mobbing”, sexual harassment and whole workplaces in a crisis situation.

**Developing HRM**

*Employees with high educational background*

The Finnish educational system has been constructed along the same principles of universality and generosity as the welfare system, which means that the general educational level of employees is relatively high. The school system is supported by non-compulsory pre-primary education, which is provided by a network of kindergartens/day-care centres and by family day-care.

A distinctive structural higher Finnish educational model exists (Ministry of Education, 1988), offering opportunities for further studies to the whole age cohort after completion of their comprehensive school education. The targets of the educational system in Finland, in terms of its coverage and equality, are hence well attained. Nevertheless, educational opportunity disguises structural inequality with men in older age groups being better educated than women (Veikkola and Palmu, 1995) and with men participating more in professional adult education (Koponen, 1994), even though younger women represent almost 60 per cent of graduates.

So at a general level, Finnish companies have a pool of potential employees with a high academic educational background but, from the companies' point of view, the problem is a decreasing interest in traditional vocational training (e.g. metal-working, carpentry) among young people.

*Training and development*

Training and development, as an HRM activity, is typically in a most paradoxical position in companies. With increasing profitability, they can afford to invest in training and development, while in turbulent times with low profitability, training budgets are the first savings targets. According to the 1995 PWC study (Mattila and Pohjansaari, 1995), the proportion of company training costs of total salary costs has decreased from the level of 1992. In order to diminish training costs, there is a change currently under way in Finnish companies from external training to internal training courses and on-the-job training. In the 1995 PWC study, 63 per

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cent of companies had increased on-the-job training and 39 per cent had increased internal seminars and training courses during the last three years. Measured by the duration of training in 1994, there is a linear relationship between the number of training days and the hierarchical staff group: 43 per cent of managers had over five training days while among upper white-collar employees the proportion was 39 per cent, among other white-collar employees 21 per cent and among blue-collar workers only 8 per cent; the majority (76 per cent) of blue-collar workers had three or fewer training days.

In Finland, company training is included in the Co-operation within Undertakings Act stipulating that companies employing at least 30 employees must have a training plan ratified yearly. Today, the emphasis in training and development in larger organizations is on managerial training and company-wide quality management programmes, for example “total quality management” (TQM) and “service culture” training. The 1995 PWC survey companies evaluated the leadership skills as a “highly important” future training area (72 per cent of companies), with other important areas being change management (45 per cent as “highly important”), service skills (44 per cent) and quality management (41 per cent).

The role of training and development is widely emphasized in Finland, partly due to the rapid change of working life and need for flexibility in companies (“life-long training”), and partly as a partial solution to high unemployment (Ministry of Labour, 1994), meaning Labour Market Training (LMT) which in 1993 covered nearly 68,000 persons, mainly unemployed or people under the threat of unemployment (Räsänen, 1995). In all, the results of LMT during the recession are regarded as positive on an individual level. It is not, however, a solution to high unemployment.

#### *Remuneration*

Before the recent recession, the collective bargaining system (in which collective contracts settled at industry level are automatically extended to all firms and employees in the industry concerned) and the high inflation level (with over 10 per cent in the early 1980s) in Finland served to deliver significant wage increases. The national so-called “solidarity wage policy” meant similar pay increases, irrespective of the profitability of the sector or company, but with the deepening recession such solidarity has been rejected and the real pay levels have decreased with the lowest inflation level among the OECD countries (under 2 per cent in 1994).

According to the principles of the Finnish welfare state, the remuneration system in Finland can be considered relatively egalitarian when attention is paid to overall wage/salary differences. The national minimum pay level supports the whole system, which means that the pay level of young inexperienced and unqualified people is relatively high by international comparisons. Naturally, the extremely high income tax level in Finland (average tax rate at 133 per cent of Average Production Worker level was 40 per cent in 1992 (OECD, 1995b), after which the tax burden increases), which is one of the highest in the world, with a very strong progressive tax regime, has meant that the wage gap in net earnings is among the smallest in the world. A complicated social security system with many types of income transfers and partial support systems has led to a paradoxical situation:

in some cases, one can get more money in use by “choosing” unemployment instead of work.

One of the permanent problems of the Finnish remuneration system is the gender-based salary/wage gap which, of course, is not a solely Finnish-specific problem but common to all countries. In general, women’s earnings amount to about 80 per cent of men’s earnings. The gap is widest in banking and insurance (37 per cent difference in 1993) and smallest in such female-dominated low-paying industries as hotels and restaurants (Veikkola, 1994). According to position, the mean salaries of all Finnish female CEOs in 1990 was 51 per cent of that of male CEOs (Harala *et al.*, 1994).

During the years of strong economic growth in the late 1980s, there were pressures to decrease the gender-based salary gap. With the more recent deepening recession, salary cuts were offered instead of increases. A clear setback for efforts towards equality took place in 1993, when wages and salaries were increased in the male-dominated industrial sectors (due to strong male-controlled unions and the profitability of the export sector) and decreased in the female-populated public sector. The private service sector adopted a zero solution. This income agreement increased the gap between the earnings of men and women by 2-4 percentage points over the year.

Logically, there is a clear difference between the staff groups and the level in which wages/salaries are negotiated. For the companies studied in the 1995 PWC survey (Mattila and Pohjansaari, 1995), in most cases the salaries of managers (around 70 per cent) and upper white-collar employees (around 55 per cent) are negotiated in the individual or company level, while the salaries and wages of other white-collar employees and blue-collar workers are based on collective or union-level agreements (around 60 per cent). The most common incentive system was results-based compensation for all staff groups (management 27 per cent and other groups 31-35 per cent), based either on group results (38 per cent) or on personal results (24 per cent). A profit-sharing scheme for all employees was applied in around 10 per cent of companies and group bonuses in another 10 per cent; personal bonuses were most common among managers (26 per cent) and upper white-collar employees (21 per cent).

The remuneration culture in Finland has been changing, and today employers are demanding lower wages and salaries, radical cuts in employers’ social costs, which in some cases are over 70 per cent of wages and salaries, and more flexibility in the whole remuneration system.

## **Discussion and conclusions**

### *Future implications*

In the late 1980s most political decision makers, academics in the field, representatives of the employers’ organizations and practising managers in Finland were stunned by the growth prospects. The critical scarce resource, which was seen to threaten the realization of these growth visions, was labour. Nevertheless, within a few years the managerial litany changed from the emphasis of “employees as the most valuable company resource” to cost-effectiveness and efforts to cut radically the numbers

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of this valuable asset. Since then the core content of the employers' complaints has concerned the paralysing effect of high labour costs in Finland.

In a short period of time, a visible change in societal values has occurred. A "grey economy" has started to flourish behind the jungle of a vast and very complicated industrial support system. The decentralization of the different industrial and individual support systems has made any efficient control difficult.

Export performance has remained high, and domestic demand has gradually started to revive. In spite of that, companies have been cautious in recruiting new employees. The unemployment rate indicates only a barely visible trend, being still 18.9 per cent in July 1995, according to the OECD standards, and 19.3 per cent according to the Ministry of Labour. Along with the recession, a broad debate on the reform of the welfare state has been introduced, in which the level of unemployment compensation is raised repeatedly. Due to the fact that almost half a million jobs were lost in the early 1990s, unemployment compensation is seen as one of the reasons for the high unemployment rate of today. Both the OECD (1995a) and domestic decision makers emphasize that benefit durations could be reduced and eligibility requirements tightened further. Benefit levels for unemployment compensation, as well as early retirement schemes, should be scaled down. Aggravating the situation, it is said that the Finnish system actually offers only two options: either full-time employment or full-time unemployment.

In June 1994, the President of the Republic appointed a working group of experts to make clear recommendations for effective measures and programmes to reduce unemployment (Ministry of Labour, 1994). The target of the working group was to find out how to cut unemployment to the level of 200,000 (i.e. less than half of the present level) by the year 2000. The propositions of the working group did not include any new or radical elements. Their basis would be in the strong economic growth and efforts to diminish the government debt, in reforming the tax and social security system and working life, in intensifying training and research, and in creating special programmes to combat long-term and youth employment. Almost a year after the publication of these recommendations, very little appears to have happened in unemployment or in efforts to cut it.

#### *EU membership*

The geographic position of Finland at the periphery of the EU means that the direct effects of EU membership seem to be more visible in the fast growing piles of new directives than in actual working life. Nevertheless, the various actors in the Finnish employment system are expressing concerns.

Part of the economic problems of Finland are seen to be related to excessively abrupt efforts to make the country eligible for EU membership. One of them was related to the overly-fast deregulation of financial markets, with consequences described earlier in this article. Since the mid-1980s, Finnish legislation has been harmonized in accordance with the European system, so that little legal change was necessary.

After a short experience of EU membership, the implications on HRM are mainly related to discussions of future changes and challenges; the actual changes are

minor. The main worries are related to free mobility of employees, changes in social security and labour relations, and the relations with the Baltic nations and Russia.

Free mobility of employees is nothing new to Finnish people, since the free labour market area of the Nordic countries was formed in the 1950s. The Finnish experiences have mainly been positive even though tens of thousands of Finnish employees moved to Sweden in search of work and better living conditions. Naturally, this situation cannot be compared with free mobility in the EU area. Finland and Sweden have shared a long common history with similar culture, legislation and partly the same language, too. The problems related to the free mobility of employees today are a fear of "brain-drain" and possible language and cultural problems in Finnish companies. On the other hand, qualified people see opportunities in the EU system. According to the most pessimistic visions, the well-educated and qualified people would leave and those with less education and fewer qualifications would stay.

The Finnish social security system differs from the one prevailing in continental Europe. The problems related to this are widely discussed in Finland. In most scenarios, the levels of social security will be cut, and the gap between the Nordic type welfare system and the European system will diminish, to the detriment of the protection of the Finnish worker, and to the potential advantage of the Finnish taxpayers and employers as well.

The Finnish labour legislation and collective labour relations system is regulative, and managerial discretion is strongly limited compared with regulatory systems in many other countries. There are indications that the Finnish labour relations system is changing towards a more decentralized format. On the other hand, there are strong pressures for a centralized collective agreement in the coming negotiation round in Autumn 1995. What is clear, in the Finnish context, is that, with increasing internationalization, labour relations issues will also become more complicated and more challenging for HRM experts in companies.

#### *Future prognosis*

What will be the future of HRM in Finland? There are general universally-found trends, such as increasing line responsibility and service orientation of the HRM function, demands for cost effectiveness and, in some cases, a question of survival. On the one hand, the technical-expert position of HRM has been deteriorating; on the other hand, the future challenges of increasing flexibility with different employment relations have increased. There are new pressures towards contract bargaining at the local level, with increasing internationalization of business and companies, with new ethical and moral questions, with philosophical and practical problems in the quality of work life – all these factors are related not only to the changes in working life caused by membership of the EU, but also to wider shifts in the business environment.

With fast changing technologies and markets, increasing international competition, and rapid social and economic changes, working life is changing. The vocational skills of people need to respond to these changes. Considering the high unemployment level and the needs of companies for "flexible qualifications", a kind of lifelong learning model with a combination of training and working periods needs careful

consideration. More generally, the key national challenge in Finland is how to integrate the “lost generation” of young unemployed people into working life, how to motivate them to choose employment instead of unemployment (in case there are options). At the company level, the main challenges will be those of organizational behaviour management, i.e. the issues of motivation, commitment, attitudinal and organizational culture in both the Finnish and wider European contexts.

#### Note

1. The survey data on strategic human resource management in Finland were collected from 428 organizations picked by a stratified random sampling method based on the company register of Statistics Finland in 1993 (Huuskonen *et al.*, 1994; Lähteenmäki *et al.*, 1994).

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Appendix 1: Finland – economic and social profile

Finland		Language: Finnish, Swedish																												
Capital: Helsinki	Population: 501,514	Total land area: 337,032 sq. km	Population: 4.971 million																											
Major cities: Espoo (179,054), Tampere (174,859), Turku (159,916)		Density of population: 14.9 per sq. km	Currency: 1 Markka = 100 pennia																											
			Value of 1 ECU 5.794 Markka (1994)																											
Economic profile																														
Labour force: 2.5 million	Labour force as a percentage of population: 51																													
<p>Age distribution of population</p>		<p>Distribution of labour force by sector</p>																												
Gross domestic product																														
GDP 1992 (million Markka)	475,608	Average annual growth in GDP (1980-91)	2.9%																											
Per capita GDP 1991 (PPS) USA = 100	77	GDP growth rate in 1993	-2.5%																											
Per capita GDP (\$US)	24,400	GDP growth rate forecast for 1994	2.0%																											
<p>Consumer price inflation</p>		<p>Unemployment</p>																												
<p>Average annual inflation (1987 - 92) 4.8%</p> <p>Annual price inflation (1993) 2.2%</p> <p>Average annual inflation (Sept 1994/93) 1.9%</p> <p>Average annual inflation (Sept 1993/92) 1.7%</p>		<p>Unemployment (1993: average) 17.9%</p> <p>Unemployment (1994: forecast) 19.0%</p>																												
<p><b>Economic overview</b></p> <p>Forestry, mining, and the manufacturing of products made of wood are important in the Finnish economy, as are foodstuffs, chemicals, textiles, glass and metal products. Of the total area of the country, about 9% is covered in water (some 55,000 lakes) and 70% of the remaining land is forested. The Finnish economy expanded by an annual average of almost 5% during the mid- 1980s but fell into deep recession in the early 1990s. The collapse of the neighbouring Soviet economy and the general European recession led to negative growth and high levels of unemployment. The current economic priority is to increase competitiveness and develop new markets within Europe.</p>		<p><b>Trading partners</b></p> <p>Percentage of total imports/exports accounted for by:</p> <table border="1"> <thead> <tr> <th>Country</th> <th>Imports</th> <th>Exports</th> </tr> </thead> <tbody> <tr> <td>Germany</td> <td>17</td> <td>16</td> </tr> <tr> <td>Sweden</td> <td>12</td> <td>13</td> </tr> <tr> <td>UK</td> <td>9</td> <td>11</td> </tr> <tr> <td>Russia</td> <td>7</td> <td></td> </tr> <tr> <td>Japan</td> <td>5</td> <td></td> </tr> <tr> <td>France</td> <td>5</td> <td>7</td> </tr> <tr> <td>USA</td> <td></td> <td>6</td> </tr> <tr> <td>The Netherlands</td> <td></td> <td>5</td> </tr> </tbody> </table>		Country	Imports	Exports	Germany	17	16	Sweden	12	13	UK	9	11	Russia	7		Japan	5		France	5	7	USA		6	The Netherlands		5
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France	5	7																												
USA		6																												
The Netherlands		5																												
FINLAND – social profile																														
<p><b>Wage growth</b></p> <p>Nominal wage growth 1993 1.0%</p> <p>Nominal wage growth 1994 2.5%</p> <p>Real wage growth 1993 -4.5%</p> <p>Real wage growth 1994 -4.0%</p>		<p><b>Trade unions</b></p> <p>There are three main ETUC-affiliated trade union confederations – the SAK (general workers), the STTK (technical workers and salaried employees) and the AKAVA (teachers and professional). Against the international trend, the number of unionized workers has increased rapidly since the end of the 1960s.</p> <p>Trade union membership density 72%</p>																												
<p><b>Wage rates</b></p> <p>Average wages in manufacturing (Finnish Markka per hour) 52.25</p>		<p><b>Bargain coverage</b></p> <p>Percentage of employees covered by collective bargaining arrangements 95</p>																												
<p><b>Working hours</b></p> <p>Average working hours per week</p> <p>1983 32.4</p> <p>1988 32.1</p> <p>1992 29.6</p>		<p><b>Industrial disputes</b></p> <p>Workers involved in industrial disputes in 1992 102,560</p> <p>Working days lost due to industrial disputes in 1992 76,090</p>																												
<p><b>Holidays</b></p> <p>Annual paid holidays 1994 5 to 6 weeks</p>		<p><b>Part-time working</b></p> <p>Part-time working as a percentage of total employment (1991) 7.6</p> <p>Women's share in part-time employment (1991) 65.2%</p>																												
<p><b>School leaving age</b> 16</p>																														
<p><b>Statutory retirement age</b></p> <p>Female 60-65</p> <p>Male 60-65</p>																														

Note: Certain statistics may differ from those quoted in the article.

Source: European Trade Union Information Bulletin, (1994), No. 4 abstracted with the publisher's permission