

RESTRUCTURING CASE STUDY

THE MODERNISATION OF THE  
INDUSTRIAL STRUCTURE IN  
FINLAND

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# FINLAND

- Small country (population 5 million) on the northern periphery of Europe, dependent on exports
- Late – but rapid – industrialisation
- Deep economic crisis in the early 1990s
  - GDP fell by 12 % 1991-93, unemployment rate rose from 3% to 17 %
- Rapid economic recovery
- Focus on the modernisation of the industrial structure

# SECTORS

- The forestry sector
  - Historically the Finnish economy heavily dependent on the forestry industry
  - Forestry contributes 5% of Finland's GDP, 20% of industrial production and 25% of visible exports
- The electronics and electrical industry
  - Historically the sector played only a small role in the Finnish economy. But since the 1990s, its importance has increased rapidly
  - The electronics and electric industry is similar in size to forestry, accounting for 5% of GDP, 21% of industrial production and 25% of visible exports

# Structural features

- Corporate structure
  - In both sectors, employment concentrated in big firms
  - In forestry, three big firms dominate the sector (Stora-Enso, UPM and Metsäliitto)
  - In electronics, the dominant firm, Nokia, is 5 times larger than the second biggest firm
  - The share of foreign-owned companies is low (3-5 %)
  - Exports are important: Paper 90%; Electronics 80%
- Workforce
  - Most employees are men (70-80%)
  - Age structure is relatively old in forestry
  - Educational level high in electrical industry
  - High unionisation rate: Paper 90%; Electronics 70%

# FORESTRY INDUSTRY

- Increasing competition since the 1980s
- Forms of restructuring:
  - Domestic mergers created 3 big companies
  - Globalisation since the 1990s
    - 60% of total capacity of Paper located outside Finland
    - Growth achieved through acquisitions and new investment abroad, not by closing down capacity in Finland.
  - Technological development towards high-tech
    - Large investments, however, has resulted in financial difficulties for some companies
  - Shift towards customer-oriented approach
  - Changing supply-side factors: new sources of raw materials (Russia)

# Cases of restructuring

- Main reasons for restructuring
  - In pulp and paper industry, restructuring generally aimed at improving competitiveness
  - In timber industry, main reasons include prolonged over-supply of sawn timber and plywood in European market and declining profitability
- The UPM case
  - Merger of UPM and Kymmene in 1995-96
  - Reorganisation of wood production 2004: 750 jobs lost and 100 made unemployed in 2005
  - March 2006: plans to cut up 3000 jobs

# Employment consequences

- Work force reductions have – so far – been gradual, using a range of approaches:
  - Paper industry: unemployment pension (age structure)
  - Wood industry: retraining, redeployment, support for self-employment and ending of fixed-term contracts.
- Responsibility of enterprises for easing effects on employees and assisting them to find new jobs used to be limited
- But this changed with Employment Contracts Act in July 2005, which encourages cooperation at the workplace and with labour authorities to help workers into new jobs as fast as possible
- Introduction of special ‘dismissed persons’ leave with pay while looking for a new job, more information from employer and a joint action plan with employment offices

# The role of key actors

- Government:
  - Role of *central government* in restructuring traditionally limited
  - emphasis of policy on improving general conditions for industry through support for R&D and education (and devaluation of currency before joining EU in 1995)
  - But *at local level*, municipalities and public employment offices try to soften effects of restructuring by attracting new firms and investing in training. Under new legislation, role of employment offices increased
- Trade unions:
  - Few workers have lost their jobs involuntarily - restructuring usually the result of technical improvements in production processes in a period of high demand
  - Trade unions have been active in demanding and achieving gradual methods to reduce work force (defensive approach)

# Challenges facing forestry sector

- Restructuring will continue in the sector
  - Globalisation, development of ICT, and demand factors have shifted competitive focus towards increasing added-value through innovation, access to new technology and ability to use it efficiently
- At global level, the pulp and paper industry now comprises a few large players and a large number of niche players
  - The number of medium-sized players is falling and number of plants in Finland will also probably fall (VNK 2004)
- To improve industrial relations in the paper industry, a joint working group on globalisation, bringing together social partners initiated in 2005. Aim to:
  - Strengthen technology and innovation policy in the sector
  - Secure supply of energy and raw materials
  - Provide new forum for social dialogue in sector to improve IR

# ELECTRONICS INDUSTRY

- High growth period in the 1990s
- Explanations (1)
  - Decentralised industrial structure and early liberalisation of telecoms market
    - Large number of operators, competition
  - Effective industrial, technology and innovation policies
    - Industrial policies changed decisively around 1995: policy for developing information society formulated by Government
    - Emphasis on innovation policies and on importance of setting national priorities in allocating scarce R&D resources (ICT)

# Explanations (2)

## – Education policy:

- Equal access to education
- High level of education of work force
  - Those with tertiary education 34 % of 25-65 population
- Special emphasis on technical education and training since the mid-1990s

## – Highly developed system of industrial relations and social security

- Cooperative trade unions; low strike activity
- Income security and public employment services help cushion income loss of redundant workers and support them in their job search

# A new restructuring since 2001

- Rapid growth of ICT sector ended in 2001-2002 with global downturn of the 'new economy'
  - Since late-1990s, producer and export prices in electronics have almost halved: rapid productivity growth, stiffer global competition
  - Between 2001 and 2005, the 11 biggest Finnish subcontractors of Nokia:
    - Cut staff in Finland by 14%
    - Increased global personnel by 121% and turnover by 76%
- Main reasons for restructuring
  - 2002-2003: need to adapt to declining markets
  - Since 2004: relocation to low-cost countries
- Sanmina case (Contract manufacturer, US)
  - 2002 Äänekoski, Tikkakoski plants were closed (600 jobs lost)
- Perlos case (Plastic components)
  - 2005 Ylöjärvi (600 jobs lost); 2006 Joensuu region (600 jobs lost)

# Employment consequences

- Reductions in work force have been achieved mainly by direct dismissals and lay-offs
- Possibilities of finding new jobs
  - Situation in local and regional labour markets; age and educational level of workers made redundant
- Self-employment
  - Number becoming self-employed has been low since it requires a capacity to take risks and a willingness to learn new skills needed to run a business
- Labour mobility
  - Compared to forestry industry, labour movement to other sectors and regions and retraining seem more important: younger age and more educated workforce

# Role of key actors

- Government:
  - At local level, municipalities and employment offices have set out to attract new firms and invest in training
- Role of trade unions in restructuring has been more offensive than in forestry:
  - Trade unions have co-operated with local authorities: with Employment and Economic Development Centres and Regional Development Companies
  - The two social partner experts from electronics sector interviewed emphasised the strengthened co-operation between partners

# Conclusions

- Finland has transformed itself in a short period from a resource-intensive economy into a knowledge-based one
- Transformation has been largely a business driven process, but policies have also played a role:
  - Wide social consensus: information society programme, growth oriented economic policy
  - Education and innovation policy: equality of access and investment in education and R&D
  - Highly developed system of industrial relations and social security
    - Cooperative trade unions, low strike activity
    - Income security and employment services have eased industrial change though support for income and job search