



PRIME MINISTER'S OFFICE  
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# Corporate social responsibility in the face of structural change

Working group report



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## FOREWORD

The Prime Minister's Office appointed a working group on 18 March 2015 to prepare a proposal for a generally applicable and socially responsible operating model designed to facilitate re-employment of people facing unemployment as a result of structural change before they are compelled to resort to the social safety net and public employment services. In preparing the proposal, the working party was urged to make use of the experiences gained from Nokia's Bridge programme.

Members of the working party:

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Head of HR Jari Forss of Metsä Fibre Oy also participated in the meetings of the working party. The secretariat of the working party led by the Secretary General of the Economic Council Pekka Sinko of the Prime Minister's Office; included Counsellor of Education Petri Haltia of the Ministry of Education and Culture; and Ministerial Adviser Johanna Osenius of the Ministry of Employment and the Economy.

In the course of the preparation, the working group heard the following experts: Senior Advisor Pertti Kiuru of Aalto University School of Business; Researcher Anu Hakonen, PhD; and post-graduate student Riitta Rönqvist of Aalto University School of Science. Background material for use by the working party was provided by Head of HR Minna Hurmalainen, TeliaSonera Finland, and Counsellor Outi Hyvärinen of the Ministry for Foreign Affairs.

Upon completion of its appointed task, the working group respectfully submits the enclosed report.

Timo Lankinen  
Chair of the Working Group



# 1 INTRODUCTION

With the emergence of international value chains, business operations have become more volatile and unpredictable, underlining the need for safety nets and incentive schemes conducive to increased flexibility in the labour market. Financing change security in the labour market poses a growing challenge to public finances. Considering the limited resources of the public sector and the need to cut spending because of the sustainability gap and other similar reasons, it would be imperative to identify operating models that would help individuals avoid becoming dependent on the public safety net when abrupt structural changes take place in production.<sup>1</sup>

In this respect, programmes that are based on companies' social responsibility and support career planning and re-entry to the labour market could constitute a potentially effective tool, the use of which should be encouraged on a broad front. One successful operating model that has also attracted attention outside Finland is Nokia's Bridge programme designed to help those facing redundancy find other work through training, outplacement or entrepreneurship.

The purpose of Bridge and other similar programmes is to facilitate the re-employment – either within the company or outside it – of people who have lost or may lose their jobs or to help them set up a business. Many of the programmes offer career guidance services and support for retraining. While these voluntary programmes primarily serve the companies' own interests, it could be beneficial for both individuals and society if they were adopted more widely. Optimally, the programmes give employees the opportunity to find new work without any intervening period of unemployment. As far as public finances are concerned, the programmes mean savings as they alleviate the pressures on public employment services and unemployment security. Moreover, if the programmes contribute to the more efficient operation of the labour market, they could also offer efficiency gains.

In Finland, these types of programmes have primarily been offered by a few large companies; however, the contents and method of implementation of the programmes have varied. No standard model for addressing restructuring situations in a socially responsible manner has been developed to date.

The Prime Minister's Office appointed a working group in March 2015 to prepare a proposal for a generally applicable and socially responsible operating model designed to facilitate re-employment of people facing unemployment as a result of structural change before they are compelled to resort to the social safety net and public employment services. In preparing the proposal, the working group was to make use of the experiences gained from Nokia's Bridge programme.

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<sup>1</sup> The Ministry of Employment and the Economy estimates that one unemployed person costs society EUR 20,000 per year. This includes unemployment benefits and loss of tax revenues but not the indirect health effects of unemployment, etc.

The working group submits this final report in accordance with its brief. The contents of the report are as follows: Section 2 addresses the nature and prevalence of restructuring situations and their impacts from the point of view of the various parties. Section 3 discusses the schemes currently in place in Finland to alleviate the problems caused by structural change and to facilitate re-entry to the labour market. Section 4 examines the significance and practical implementation of corporate social responsibility in situations caused by structural change and presents two practical examples of restructuring programmes put in place by Finnish companies. Section 5 outlines the proposed socially responsible operating model. Finally, the report addresses a number of circumstances related to legislation and policies that may hamper the adoption of socially responsible operating models.

## 2 NATURE AND PREVALENCE OF RESTRUCTURING SITUATIONS

Since the Second World War, the Finnish economy has undergone changes that have profoundly affected Finland's economic and social structures and created favourable conditions for output growth and increased welfare. Traditionally, structural changes are reflected in changes at the business sector level.

However, the structural changes taking place in the 2000s differ, in many respects, from those that happened in the past decades. For example, due to the advancement of information technology, the effects of the globalization of the economy are increasingly visible at the performing level as the various production stages are broken down into international value chains. Among other things, this means that many of the tasks previously carried out by industrial and office workers, including expert duties, have been relocated to countries with lower labour costs. Artificial intelligence and automation are also predicted to extend the employment implications of structural change to the more educated labour force.<sup>2</sup>

As an open export-driven economy, Finland is highly susceptible to changes in the global markets. This sensitivity is further aggravated by a relatively one-sided structure of industry and exports. This is clearly seen in the rapid decline of the forest and electronics industries in the 2000s. A reasonably wide consensus exists that globalization will lead to situations where national economies are increasingly required to adjust to short- and long-term fluctuations in supply and demand.

At the national level, structural change means a trend where certain functions and jobs become unprofitable and are replaced by new, financially feasible functions as a result of changes in the international division of labour due to the advancement of technology and the deregulation of the markets. Even though structural change usually results in improved productivity and increased welfare in the long term, its progress often involves friction and costs that may, at least in the short term, lead to significant losses of production as well as physical and human capital.

For small, highly specialised firms such as subcontractors, structural change may spell doom. Large companies, in turn, are often faced with a situation where one business area or technology withers and investments in new business and technology are required to replace the old. This is typical of high-tech companies. New technology calls for a new type of expertise, which is often so different that it does not make sense to retrain the existing employees. As a result, some of the personnel – or even a sizable percentage – may have to be made redundant.

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<sup>2</sup> Cf. Pajarinen & Rouvinen (2014).

Faced with structural change, a company's primary goal is to restore profitability. However, because of the great public interest surrounding major staff reductions, adaptation to structural change is always a risk in terms of corporate image and reputation as an employer<sup>3</sup>.

For employees, structural change means a need to adapt to new tasks and the risk of unemployment, which is also often realised in the form of a short or long interruption in a professional career. This is a highly challenging situation, especially for those advanced in age who have worked for the same employer for a long period of time and have little experience of how to find work in the open labour market.

At the personal level, the threat of unemployment, under-employment and actual unemployment have been found to have detrimental health effects and create mental problems. Moreover, work motivation tends to suffer and absenteeism increase even among those who manage to keep their jobs during restructuring. All these effects decrease productivity and make it more difficult for companies to adjust to change.<sup>4</sup>

From the point of view of the regional economy, structural changes are often particularly challenging because a single company or field of activity may play a key role locally. The individual characteristics of the region, such as the structure of the local economy, demography, business climate, the educational background of the population and the geographical location relative to nearby urban areas or growth centres, have a major impact on the region's ability to adjust to the new situation.

The most obvious consequences affecting localities undergoing structural changes are increased unemployment and the fall in the number of vacancies. Typically, the problems are aggravated in small localities where the economy tends to be structurally one-sided. Growing unemployment also fuels depopulation when people leave to find better employment opportunities elsewhere.

This, in turn, affects the local government finances as a result of declining tax revenues. Moreover, the affected region loses skilled labour. With increasing unemployment and falling disposable income, people's purchasing power decreases. In the long run, this may have an adverse impact on the provision of services and so aggravate unemployment even further. It leads to a vicious circle that only impoverishes the regional economy.

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<sup>3</sup> For example, Nokia estimates that the closure of its factory in Bochum resulted in a loss of sales in the German market amounting to hundreds of millions of euros during 2008–2010 as a result of its tainted public image (Sucher & Winterberg 2015a).

<sup>4</sup> <http://www.personneltoday.com/hr/survivor-syndrome-among-staff-is-hindering-employers/>

## 3 EXISTING SCHEMES FOR ADDRESSING STRUCTURAL CHANGE IN FINLAND

### 3.1 Anticipation and management of structural change

For regions, the most effective defence against structural change and avoiding its sudden impacts is to have a diversified and evolving local economy.

Promotion of new growth sectors and up-to-date educational policies facilitate adaptation to structural change. *Proactive approach to structural change* is a concept that underlines, as ways of preparing for change, the importance of foresight in management; local preparation and responsibility for the promotion and renewal of business and industry; the reinforcement of smart specialisation; and a culture of experimentation. The funding instruments available for the promotion of employment and business are used in combination on a case-by-case basis. All these measures are designed to improve flexibility and the capacity for adaptation in the face of change.

The Government may designate a given region or field of activity as an *sudden structural change*, for which the local municipalities, the business sector, the Centre for Economic Development, Transport and the Environment and the regional council jointly prepare a growth plan for addressing structural change. The plan outlines key proposals for the creation of new and the renewal of existing jobs as well as other measures to be taken in the various administrative sectors to improve the situation.

Designating an area of abrupt structural change is based on a case-by-case analysis with due regard to the following considerations:

- the structure of the local economy undergoes a profound and unexpected change or transformation;
- the total loss of jobs in a company or the entire production chain/cluster and the estimated number of those left without work affect hundreds of people;
- the effects are also reflected widely beyond the region/hundreds of jobs are lost in several localities;
- the impact of the cuts in the workforce on the regional employment and unemployment rates;
- the situation is permanent (temporary layoffs are not taken into account);
- a forward-looking contingency plan prepared by the relevant parties exists for the region to address the crisis situation;
- as a result of ongoing efforts to develop the economy, the region possesses true potential for renewal and a growth plan has been prepared on this basis;
- additional funding is expected to have a major impact in terms of generating new business and creating new jobs;
- the company is committed to sustained cooperation.

Appropriations for the needs of areas and fields of activity affected by abrupt structural changes are considered on a case-by-case basis within the framework of the final and supplementary government budget. Additionally, programme funding available for the Structural Funds period 2014–2020 may also be used to finance projects to address structural change.

The effectiveness of the measures to support areas of abrupt structural change is assessed by the National Audit Office. During 2007–2010, an average of 500 people lost their jobs in the areas of abrupt structural change. The intervention by the Government succeeded in reducing unemployment by about 200 jobs compared to the situation where no measures had been taken. The figure includes people employed by municipal infrastructure projects and growing companies, and through the measures adopted by the labour administration. (Report of the National Audit Office on the effectiveness of government action 2012, 65.)

## 3.2 Change security

The Employment and Economic Development Offices offer assistance, support and advice for both the employer and the employees facing redundancy or layoffs in a situation where staff cuts are made or the organization is revamped. The network of change security experts operated by the offices provides support for the employer and employees in matters related to change security. Change security helps the offices predetermine the services necessitated by the redundancies and assists the employees in finding training or a new job as quickly as possible. Change security includes a paid period of time for looking for a new job, the increased daily allowance payable during the provision of employment-enhancing services and an employment plan.

The change security model has been applied in Finland in connection with redundancies since 2005. Change security facilitates cooperation between employees, employers and the Employment and Economic Development Offices offering additional security for employees in connection with redundancies and extended layoffs. Key elements of change security include early activation, predictability and close cooperation.

According to the statistics of the Ministry of Employment and the Economy, a total 8,500 companies between 2005 and April 2015 have been faced with restructuring situations affecting over ten people. The estimated maximum number of staff reductions at the beginning of the statutory employer-employee consultations was over 370,000 people whereas the number of those whose employment was actually terminated at the end of the consultations was 126,000. Aside from the above statistics, redundancies affecting fewer than ten people also need be considered because they too are highly significant.

This operating model has proved to be sound and found to have facilitated re-entry to the labour market fairly effectively over a relatively short period of time. This is corroborated by the 'Yhteistyöllä turvaa muutokseen' study commissioned by the Ministry of Employment and the Economy. It shows that the change security offered by the Employment and Economic Development Offices helps people find work following termination of employment or layoffs.



Of the people covered by the programme, 35 per cent were re-employed within three months and 56 per cent within 18 months.

The practical approach and intense cooperation employed in the change security policy reaching the individual employees in the companies have made it possible to address the needs of the redundant workers and work out plans for the future. This policy has served as a model for many companies in their efforts to put in place their own schemes for dealing with and managing structural changes (see section 4).

The Government's proposal for improving cost-competitiveness given on 8 September 2015 foresees measures to improve the employees' change security. Accordingly, employees of companies employing more than 20 people are offered – in addition to pay during the notice period – the right to participate in re-employment training, the value of which is equal to or greater than the average monthly wages paid by the company, as well as access to occupational healthcare services for six months following the expiry of the notice period.

### 3.3 Other arrangements conducive to re-entry to the labour market and career development

#### *Services for companies*

The Employment and Economic Development Offices offer start-up grants for new entrepreneurs, career coaching, access to trial work, entrepreneur training and a range of services for setting up, growing and developing a business. The start-up grant offers the entrepreneur income security for the period of time (up to a maximum of 18 months) that the commencement and establishment of the business is expected to require. Those eligible for the start-up grant are unemployed job seekers or employees, students or those working at home who wish to start up their own business.

Subject to certain conditions, employers may be eligible for financial support from Employment and Economic Development Offices to cover part of the payroll costs if they hire an unemployed person. Pay subsidies may also be granted for apprenticeship training. The purpose of pay-subsidized work is to improve the unemployed job-seeker's professional skills and make it easier to find work in the regular labour market. The employer is required to pay the wages specified in the relevant collective agreement. If no such collective agreement exists, the wages must be ordinary or reasonable.

A company or other employer may provide training for existing or new employees in collaboration with the Employment and Economic Development Office. Persons planning to start up a business of his or her own or entrepreneurs may also take part in the training along with the employees. The training is planned and financed jointly by the employer and the Employment and Economic Development Office. The employer can help employees made redundant for financial or production-related reasons find a new occupation or job, or offer support for those laid off for an indefinite period of time (change training). The training modules can also be combined with other business development services.

### *Skills development and maintenance*

Finland offers fairly extensive opportunities for maintaining and complementing professional skills through training – both when working and when unemployed. At the lower or vocational education level, the options include demonstration of competence tests and apprenticeship training.

A person with adequate professional skills may take a *demonstration of competence test* or part of it without even participating in the actual training. Completion of the test or even parts of it – in addition to some earlier qualification – may greatly improve one's skills and opportunities in the labour market. Companies are invited to make use of the demonstration of competence test as part of their human resources development efforts. The results gained so far show that the demonstration of competence qualifications are beneficial to both companies and individuals.

*Multiform polytechnic education* allows students to pursue studies while working. The education is provided flexibly in various forms. Some of the instruction is given in class during the day, in the evenings or during weekends depending on the type of training involved while some of the studies are completed online. The programme also includes independent self-study.

*Higher polytechnic degrees* are education modules designed to meet the needs of the labour market and implemented in close cooperation with employers. In the labour market, these degrees are equated with the master's degrees awarded by universities. The training programmes aiming for higher polytechnic degrees require full-time study over a minimum period of one academic year or a maximum period of 1.5 academic years.

*Specialised training offered by universities and polytechnics* is a training programme for those already employed and holding a university degree. The training is designed to enhance professional skills and encourage specialization, particularly in areas of expertise where no training is commercially available.<sup>5</sup> Universities prepare the plans for specialization training in collaboration with the employers' and employees' representatives. Close contacts with workplaces is of key importance to the training.

Universities and polytechnics offer *supplementary training* primarily for post-graduate students. The range of training available is extensive and diversified. Typically, it consists of information briefs, seminars or short courses lasting from one to a few days. In contrast, expert training programmes may take anything from a couple of months to several years. The training can also be provided in the form of staff training for companies and organisations or as labour market training.

Nearly all of the courses discussed above can also be studied independently or, subject to certain conditions, as part of the labour market training intended for the unemployed or job seekers threatened by unemployment. If so, the student will be able to claim unemployment

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<sup>5</sup> Amendments to the regulations governing specialization training took effect on 1 January 2015.

benefits while studying. An employed adult student pursuing studies independently may be eligible to adult education support granted by the Education Fund and apply to the Social Insurance Institution for a student loan for this purpose.

## 4 CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY AND ITS APPLICATION

In open economies, it is traditionally up to the state to address market disruptions. Accordingly, the state has intervened in the operation of inefficient markets by adjusting taxes, providing subsidies or introducing new regulations. Often, market disruptions are caused by what is known as 'externality'. Externality refers to the cost or benefit that affects a party who did not choose to incur that cost or benefit. A typical example of detrimental externality is the pollution caused by manufacturing activities, which means that production volumes exceed what is socially optimal. The state may improve things by either taxing this type of activity (environmental protection tax) or by regulating the volume or type of activity.

Recently, corporate social responsibility has more and more frequently been proposed as a solution to market disruptions as opposed to state intervention. While corporate social responsibility has been defined in a number of ways, it basically means that companies exceed the minimum requirements set out in laws and agreements. Much of the literature on corporate social responsibility focuses on environmental issues with less attention being paid to the labour market.

Should we rely on government action in the efforts to address market disruptions or should we extend part of the responsibility to private actors such as companies? Would these measures be mutually exclusive or complementary? No definite answers to these questions are found in the economics literature (Benabou and Tirole, 2010). Fundamentally, it is a question of which party can address the market disruptions more effectively.

### 4.1 External effects of redundancies<sup>6</sup>

Redundancies not only affect the employee and the company but also society at large through a number of mechanisms. The unemployed and those outside the labour force contribute very little to the financing of public services and income transfers. Consequently, part of the external effects are due to loss of tax revenues and increased income transfers. Another mechanism is the financing of income security. Most of it is financed by the social security contributions paid by companies and wage-earners. When a company lets people go, the financing base of income security shrinks while at the same time the costs increase. The growing net expenditure is covered by other companies and wage-earners. Unemployment itself may have social implications: it affects health (and so the cost of healthcare) and increases the crime rate. A fall in income not only affects the employees but also other people around them.

These external effects are the only scientifically justified reason for regulating redundancies. At present, much of this regulation is effected through legislation and collective labour agreements. It is one way of persuading companies to internalize the external effects of redundancies. The United States applies a different approach: the protection against

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<sup>6</sup> This section is based on the work of Cahuc and Zylberberg (2009).

unilateral termination is weaker, but the unemployment insurance premiums payable by companies are determined by earlier redundancies – companies with a history of dismissing large numbers of people pay higher premiums.

## 4.2 Ways of implementing corporate social responsibility

No definition exists for corporate social responsibility in case of redundancies, nor is there any consensus as to the measures it entails (Cedefop 2010). Consequently, it is not clear what socially responsible action actually means. Forde et al. (2009) draw upon the experiences gained in the British steel industry to provide a useful framework for what socially responsible restructuring could mean. They identify three phases in the redundancy process in an attempt to outline measures consistent with social responsibility.

### *A. Prior to the announcement of redundancies*

In this phase, Forde et al. (2009) underline the importance of anticipation in the face of change, the early announcement of impending layoffs and redundancies and transparent communications. As far as anticipation is concerned, they emphasize long-term investments in the employees' human capital. In real terms, this means the provision of training to ensure that they can find work elsewhere. When discussing early announcement, they argue that it should be made earlier than required by law. In Finland, these provisions are included in the Act on Co-operation within Undertakings. However, listed companies are not allowed to issue warnings of impending redundancies before a public announcement is made.

### *B. Public announcement of redundancies and consultations with employees*

At this point, Forde et al. underline the importance of negotiations or consultations with internal and external stakeholders as well as mapping out the alternatives to redundancies. In Finland, these proposals are also included in the Act on Co-operation within Undertakings. However, the very definition of corporate social responsibility calls for efforts beyond the provisions set out in legislation, which in Finland's case would mean that the provisions of the Act would have to be surpassed.

### *C. Implementation of redundancies*

In this phase, Forde et al. (2009) find it important to apply equitable criteria for the selection of workers for redundancies and internal transfers, provide services to facilitate re-entry to the labour market and exceed the level of financial support specified by law.

Of the re-employment services, they highlight

1. Outplacement services
2. Job and psychological counselling
3. On-site job fairs
4. Liaison with external labour market institutions (e.g. employment offices)

Most of the measures listed above (A through C) are designed to increase a company's responsibility for the re-entry to the labour market of its former employees. Such measures may be deemed advisable from the point of view of internalizing external effects. From a theoretical perspective, the key question is: Which is more effective in providing these services – the companies or the state?

### 4.3 Incentives for participation by companies

What then are the incentives offered to companies to reduce the social cost of redundancies? Humanly speaking, redundancies are always awkward for those made redundant as well as for those remaining, including the supervisors who are required to actually give them notice. From this point of view, companies have a clear incentive to apply procedures that are perceived to be 'fair' in respect of the people being dismissed. Maintaining a good reputation as an employer when people are let go calls for a level of performance that exceeds the minimum legal requirements or generally accepted practice.<sup>7</sup>

According to a survey among companies, the main reasons for investing in socially responsible restructuring in connection with redundancies is to secure commitment and motivation on the part of the remaining employees, maintain a favourable employer image among those made redundant and to protect a good reputation and business image (Cedefop 2010).

Other circumstances affecting the company's willingness to measure up to the requirements of socially responsible restructuring is their operating environment and the public support available. In the United States where the public safety nets are less extensive, voluntary actions by companies are more common than in Europe where public regulation and intervention in restructuring situations are stronger (Forde et al. 2009). In Europe, the policies adopted by companies tend to concentrate on reactive short-term measures. Exceptions to this rule – at least to some extent – are Sweden and Germany where laws have been enacted to promote proactive and forward-looking procedures, particularly among large companies (Cedefop 2010).

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<sup>7</sup> Paradoxically, generous benefits offered in case of redundancies may be one way for the company to succeed in competing for skilled labour.

**Fact box:** Measures adopted by Germany to promote socially responsible restructuring

Germany has put in a place a number of labour policy regimes to promote socially responsible restructuring and create incentives for companies to pay part of the cost of re-entry to the labour market by people who lose their jobs.

*Transfermassnahmen* refers to arrangements where the employee's notice period is used for improving the basic preconditions for re-employment. Concrete measures include outplacement advice, job search training, advice on the establishment of a business, and the identification of personal skills and competence. The employment authorities support these efforts by paying 50% of the necessary and reasonable costs – the maximum being EUR 2,500 per employee.

Of perhaps greater importance is another support scheme known as *Transferkurzarbeitengeld* which is paid to support temporary re-employment of redundant workers until they find new permanent jobs. The amount paid by the employment office to the (temporary) employer is equal to the unemployment benefit (Kurzarbeitengeld) or 60–67% of net pay. The subsidy is paid for a maximum period of 12 months.

Provision of the latter form of subsidy involves an interesting scheme known as *Transfergesellschaft*. Under this scheme, the company letting people go makes an agreement with the employees' representatives on the establishment of an independent transfer unit (Transfergesellschaft). After that, the workers made redundant may sign an employment contract with the transfer unit that will use the subsidy to cover part of the payroll costs. Often, additional support for the transfer unit is provided by the dismissing company allowing the employees to maintain their previous income level during the transition period. The transfer unit is obligated to take various measures to find new jobs for the members in the open labour market.

The Transfergesellschaft model dates back to Germany's reunification when a similar institution was created to improve the employability of people left without work in the former East Germany and help them find new jobs in the West. Since then, the model, which is both defended and opposed, has been modified to respond to restructuring situations. For companies, the perceived benefit is that employees are not actually made redundant, which helps protect the employer's public image. At the same time, the company is spared legal disputes and claims for compensation that could affect its market capitalization.

For employees, these arrangements, if successful, mean that they avoid unemployment and are able to move onto a new job flexibly. The downside is that they lose any severance pay and may be left without work upon expiry of the transition period. For employment authorities, the arrangement is less costly than open unemployment. A critical study has drawn attention to the fact that on average, the members of the transfer units have not been able to find new employment any better than the customers of the regular public employment services (IZA, 2007).

## 4.4 Examples of socially responsible operating models

### *Nokia's Bridge programme*

In the winter of 2011, Nokia announced that it would switch to Microsoft's Windows software platform in its smart phones. Windows was to gradually replace Nokia's proprietary Symbian and MeeGo operating systems. By spring 2011, the plans had proceeded to the point where Nokia commenced statutory employer-employee consultations concerning production and related support functions. Later, the restructuring process was extended to the entire company. As part of the changes, the number of sites was also reduced: for example, the product development units in Copenhagen and London were phased out. Both employed some 1,000 people. At the same time, Nokia announced a programme to support those who had lost their jobs.

The programme called 'Bridge' was launched by Nokia's Board of Directors. The following priorities were set for the programme in this order of precedence:

1. Support for individuals made redundant
2. Support for communities where the local economy was highly dependent on Nokia
3. Support for Nokia's new strategy and eco-system

The Bridge programme offered three tracks for the next phase in life:

1. ***New position with Nokia:*** Nokia wanted to retain as much as possible of the in-house skills and competence for the needs of the production development organization to be established for the Windows phones. Employees were offered career guidance in an attempt to find new job opportunities within the company.
2. ***New position with another company:*** Nokia hired external consultants to provide career guidance and support for updating CVs and looking for work. Additionally, Nokia contributed to the efforts to match employees with jobs by holding on-site job fairs and organizing smaller meetings with local operators. Nokia and the consultants also contacted potential employers directly in order to identify any hidden jobs.
3. ***Entrepreneurship:*** Nokia provided entrepreneurial training and held events featuring entrepreneurs, financiers and other experts. Nokia helped with the preparation of the business plan and offered start-up grants of up to EUR 25,000 per entrepreneur. It was taxed at the employee's personal tax rate. The amount of the grant was affected by the quality of the business plan and the growth potential of the foreseen business. The business plan was presented to a jury who made the final decision on the grant. Typically, the jury members were Nokia's in-house experts with experience from business development, financial administration and human resources management. Additionally, Nokia agreed to guarantee bank loans up to amounts twice the size of the grant. However, the guarantee only covered a maximum of 60% of the total credit. The decisions on the extension of the loan and the terms of credit were made independently by the bank. A total of 400 new



businesses involving over 500 entrepreneurs were set up in Finland over the course of the programme. Of these, 40% developed ICT products (SW or HW), 30% provided experts services while 30% engaged in other forms of business.

4. **Training:** In Finland, Nokia planned and implemented training provision in consultation with the Centres for Economic Development, Transport and the Environment based on a ready-made conversion training model. Nokia paid 20% of the cost of the training provided under this scheme. The training was based on the trainees' personal interests and the information on employment opportunities available to the Employment and Economic Development Centre. In compliance with the standard procedure, the Centre for Economic Development, Transport and the Environment put the provision of training out to open tender and organized the actual training. The objective was to provide training that would support quick re-entry to the labour market. Experts and managers were primarily offered supplementary training or the opportunity to complete any half-finished degrees. Workers were offered retraining for a new profession.
  
5. **Own path** was originally intended for those who fell through the gaps. In reality, the first four tracks were enough to respond to the situation. The personal track statistics include those who made an informed decision to take a sabbatical or parental leave at their own cost.

Especially in communities where the company was a major employer, Nokia made efforts to sell its premises to a new entrepreneur willing to continue production. Of course, success depended on competitiveness and the business environment. Nokia succeeded in selling its factory in Cluj, Romania, to DeLongh which started manufacturing household appliances in the town. Major efforts were also made to sell the factory in Salo, Finland. Half of the facility was sold to Orion, but the company employed far fewer people than Nokia did. German auto manufactures established new sites in Ulm, Germany, and hired most of the talent released by Nokia right away. Similar skills and competence were also available in Oulu, Finland, but despite the low cost level it did not prove as attractive to investors as Ulm.

The services offered and procedures applied under the Bridge programme were universal. Practical implementation was planned to suit local conditions. Local Bridge project teams were set up in 20 localities in 13 countries. Typically, the team was headed by a manager who had lost his or her job and was widely appreciated both by Nokia and the local community. In Finland, Bridge teams were set up in the Helsinki area, Salo, Tampere and Oulu. Countries with no dedicated Bridge organisation were supported on a centralized basis.

Globally, 18,000 people participated in the Bridge programme, of whom 5,000 in Finland. Of the 5,000, slightly over 3,000 were white-collar workers and the rest blue-collar.

Aside from Bridge, Nokia continued to pursue its existing policy of offering voluntary severance packages, the size of which was determined by the duration of employment. The maximum amount was 15 months' pay. Those who accepted the severance package gave

notice. Very few employees selected unilateral termination by Nokia with the accompanying statutory benefits<sup>8</sup>.

Bridge was divided into two phases. In the first phase, Nokia offered two months' paid leave without the obligation to work. This period was intended for job seeking and preparing a business plan. Those joining the Bridge programme after June 2012 were no longer eligible to this leave. The Bridge programme was closed at the end of 2013. The total cost of the programme amounted to around EUR 50 million (Sucher & Winterberg 2015b).

The Bridge programme has been evaluated from a number of perspectives in various studies and reports. Based on interview data, Kiuru et al. (2014) found that the entrepreneur track of the programme had been successful in encouraging people to start up a business and creating new thriving firms. Although the programme was designed for the needs of a large corporation, the authors think that it could also prove useful on a smaller scale.

Rönnqvist et al. (2015) assess Bridge from the point of view of the employees who took part in the programme. According to the findings, Bridge had positive implications for the participants in terms of improving their wellbeing and facilitating re-entry to the labour market. The programme served as a source of social support: it enhanced positive resources and reduced feelings of insecurity, thereby helping people cope with the change. At the same time, the programme improved Nokia's employer image: 67% of the respondents perceived the company as a fair and responsible employer thanks to the programme.

### ***TeliaSonera competence pool***

Another, less well-known example of socially responsible restructuring which has also attracted positive attention is the competence pool established by TeliaSonera in 2006. The company offered an institutional framework and monetary support for the relocation of staff members facing redundancy, either within the company or outside it.

The competence pool was set up to look after the staff in the face of major restructuring. The employees assigned to the competence pool continued to be employed by TeliaSonera but their previous duties ended. The pool offered change coaching, training and trainee positions, security and the possibility of looking for new work on full pay beyond the regular notice period. The objective was to find a career solution acceptable to the participants within three months.

The project achieved cost savings in recruitment and induction. As a result of the programme, TeliaSonera's employer image and job satisfaction improved and rates of absence due to sick leaves decreased (Cedefop 2010). The programme cost during the first year was EUR 48 million (TeliaSonera 2008). A total of 250 people found new permanent jobs and 600 temporary jobs through the competence pool.

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<sup>8</sup> In certain cases, the termination of employment may be more advantageous for employees or even necessary because of the terms of their house loan or other similar reasons. Whether a person gave or was given notice did not affect their eligibility for the Bridge programme.

It was wound up in June 2010 when the peak of the restructuring process was over. Subsequently, TeliaSonera has adopted a more distributed relocation model where employees facing redundancy are no longer assigned to a special unit. Instead, support is provided for them through the intranet and by their immediate supervisors. Employees are also offered severance packages exceeding statutory benefits.

## 5 SOCIALLY RESPONSIBLE POLICIES PURSUED BY COMPANIES IN THE FACE OF STRUCTURAL CHANGE

### 5.1 Recommended socially responsible policies

As mentioned in section 4, socially responsible restructuring policies may be deemed to consist of measures that *exceed the minimum requirements laid down by law* and are designed to facilitate re-entry to the labour market by the displaced employees. Underlying these voluntary policies are the companies' own long-term interests.

The companies' practical possibilities to pursue socially responsible policies are determined by their size and financial resources. No universally applicable model suitable for different companies in different situations exists. Considering the intense international competition, it is inadvisable to increase the administrative and financial burden on companies unnecessarily.

The following section lists a number of socially responsible best practices in the anticipation and implementation of redundancies based on research and the experiences gained from programmes applied by various companies. The point of departure is that the measures and policies suggested here are complementary to the statutory minimum requirements. Far from exhaustive, the list seeks to be informative and provide encouragement to adopt socially responsible measures within the limits imposed by in-house resources.

#### ***1. Effective anticipation in collaboration with local players***

From the regional point of view, effective management of structural change calls for a forward-looking approach designed to contribute to the diversity of the local economy, support continual corporate renewal as well as update and diversify employee skills and competence. To accomplish this, close cooperation between local entrepreneurs, employers and the authorities is necessary in order to be aware of the current situation and have an overview of what is to be anticipated.

If a company is compelled to make considerable staff reductions or hire a large number of people in order to secure its competitiveness, it would be advisable for the company to contact the local Centre for Economic Development, Transport and the Environment or the regional department of the Ministry of Employment and the Environment if the foreseen changes affect several regions. Such cooperation is confidential and contributes to the effectiveness and coordination of the actions to be taken by the company itself and the support measures offered by society.

## ***2. Maintenance of the employees' professional skills and marketability***

It is of vital importance to the future re-entry to the labour market that the employees' skills and competence are effectively developed during long-term employment. Advanced age, obsolete skills and limited experience of job seeking reduce the prospects of finding new employment when structural changes are taking place. More often than not, maintaining employee skills and marketability is in the best interest of the company and, in the final analysis, not at variance with the objectives established for regular personnel development. A socially responsible employer:

- takes a positive view of professional skills development and training and supports it.
- supports the efforts to disseminate information on training opportunities.
- engages in cooperation with educational institutes: hires trainees and on-the-job learners, and encourages employees to contribute to this cooperation.

## ***3. Comprehensive communications and action plan in job-loss situations***

A company's management and supervisors are often aware of the forthcoming statutory employer-employee consultations even months in advance. Above anything else, the management must be able to justify the necessity of this process to the personnel in these challenging situations. The shop stewards must be consulted and be involved in the process as early as possible. It is important to bear in mind that employees prefer to participate in the planning of future changes rather than just be targets of action. Open, fast and comprehensive communications are a key to sound change management.

Companies should prepare the supportive measures in detail before initiating the employer-employee consultations to ensure that they can be implemented immediately before actual dismissals.

## ***4. Career and re-employment coaching for personnel facing redundancy***

A loss of one's job comes as shock – therefore it is important to activate the employee to start looking for a new job and plan for the future as quickly as possible. Past experience shows that it may take time to recover from the shock and turn one's thoughts to the future, for which allowances should be made. If necessary, professional help should be available to come to terms with this adaptation process. After this, the employee should begin to think what he or she actually wants to do next and what to do to develop their skills and competence. This planning process should translate into concrete actions (job search, training, entrepreneurship, etc.) in a couple of months<sup>9</sup>.

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<sup>9</sup> Studies suggest that a displaced employee is most likely to find new work within three months of the job loss, after which the chances decline at a steady rate.

A common objective in re-employment coaching is to secure a new job or career for the person facing redundancy as fast as possible. Coaching helps the displaced employee find a new direction, identify their strengths and areas of competence and communicate them effectively. As the objectives and needs of a given person are genuinely individual, coaching should be provided individually or in very small groups.

#### ***5. Assurance of the wellness-at-work of the remaining personnel***

It is also advisable to pay special attention to the wellness-at-work of the employees who keep their jobs – the situation may cause considerable anxiety and reduce efficiency at work for a long time. Those remaining may feel guilty about keeping their jobs or think that they will be required to put in greater efforts with a lower number of people. There can also be fears of losing one's own job, even though it was saved for the time being. The management needs to take steps to improve the team spirit and motivation. From the business point of view, it is a clear advantage for the company if eyes can be turned to the future right away.

#### ***6. Matchmaking events and skills marketing***

A company planning to make staff reductions may, either alone or in collaboration with the employment authorities, organize events where the employees facing redundancy can meet potential new employers who in turn can scout for skilled workers among those leaving. Positive experiences have been gained from these matchmaking events also in Finland in the context of the Bridge programme, although most of the major events were held in other countries.

To speed up re-entry to the labour market, it is important to gather data on the competence profiles of the dismissed individuals and entire teams in order to harness this information in domestic and international skills marketing, and in the provision of the services offered by employment offices. Marketing should be commenced early enough, if possible before actual redundancies (with due regard to the provisions of the Act on Cooperation within Undertakings).

#### ***7. Contribution to the payroll costs of the new employer***

The severance packages offered by many companies exceeding the minimum requirements allow the employees some time to pause and think, and provide a soft start for job seeking efforts. However, they may also prolong the period of unemployment and put off the search for new work.

To ensure timely re-entry to the labour market, it would be extremely important to create and experiment with schemes, under which the dismissing company undertakes to assume responsibility for the payroll costs of the displaced employee for a pre-determined period of

time<sup>10</sup>. If so, the additional compensation paid by the employer would provide direct support for re-employment.

For small firms in particular, partial coverage of payroll costs by the former employer could be a powerful incentive to hire a new or even the first employee on a provisional basis in a situation where outright commitment to pay would appear to involve too great a risk.

### ***8. Support for new business creation***

Support for new business creation refers to measures by which the dismissing company can encourage former employees to set up a business of their own. Aside from actual subsidies (start-up grants), other conceivable devices include equity investments and the surrender of intellectual property rights to the company to be established. Starting a new business is a potentially important and – from society's point of view – a highly useful way of re-employment as indicated by the positive results gained in the Bridge programme.

### ***9. Updating professional skills in the face of redundancy***

Career planning may often uncover a need to update or redirect professional skills through training. For this reason, employers should be able, as a minimum, to provide guidance for the redundant employees regarding the training services they are deemed to need. Cooperation and contacts with the authorities offering training are of great importance in this respect. Large corporations, in particular, are in a position to offer tailor-made training together with the authorities. Such training may aim for employment in the same or even in a completely different field. Whichever the case, the identification and recognition of the existing skills and competence are crucial.

### ***10. Internships***

In the light of international experiences, internships at other companies have proved to be popular and efficient devices for re-employment under corporate restructuring programmes (Cedefop 2010). For the employee, a training period in another firm lowers the threshold for trying something new while giving the employer an opportunity to evaluate a potential new employee.

## **5.2 Need to develop administrative procedures and legislation**

Section 5.1 provided a description of best practices related to a socially responsible approach to mass redundancy. The adoption of these practices should primarily be voluntary. The Government may, through its own actions, either facilitate or, in some cases, complicate a broad-based introduction of these practices. The following section discusses a number of

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<sup>10</sup> For example, in the operating model applied in the administrative sector of the Ministry of Employment and the Economy, contracts may be made with a private employer, under which the agency remains responsible for an individual's payroll costs for one year while the private employer undertakes, in turn, to employ the individual for a subsequent minimum period of one year (MEE 2014).

observations regarding the need to develop administrative procedures and legislation based on practical experience and comparisons made between individual countries.

1. Considering the fast pace of change in the global economy, it is important to put in place mechanisms that make it easier for employers to update staff skills and competences even in situations where it is not realistic to try and address these needs through in-house training, for example when a completely new technology is adopted. The current regulations specify a ***duty to relocate and re-employ people*** in the event they are made redundant, which slows down and complicates the transition while making it harder to employ new resources and young people.

2. The ***start-up grant*** offered by an employer to its former employees ***is subject to income tax at the employees' personal tax rate*** even though the subsidy is paid to a company. Due to progressive taxation, the actual tax rate on the start-up grant often becomes extremely high, typically 50%, which greatly reduces the amount of capital available to the new business to be launched. It would be advisable to determine how the tax treatment of start-up grants could be adjusted to the overall corporate rate.

3. When people are made redundant, re-entry to the labour market is often hampered by obstacles related to moving home (spouse's workplace, family, dwelling). Due to its mobile nature, knowledge intensive work can often be carried out from home. Many employers are in a position to offer an opportunity for this. However, the working hours legislation and other regulations date back to a time when the performance of work was usually tied to a specific time and location. For one thing, it would be important to ensure that the working hours legislation ***supports new ways of working, telecommuting and greater freedom for employees to choose their place of work and working hours when this opportunity is offered by the employer.***

4. A precondition for ***eligibility for funding by the European Globalisation Fund*** for socially responsible restructuring is that the personal data of the employees concerned are submitted to the EGF for auditing purposes. However, Finnish employers are not allowed to disclose such data on former employees even to the authorities unless they are required to do so pursuant to some law<sup>11</sup>. This hinders access to EGF funding by Finnish companies when they seek to finance their respective programmes.

5. Public employment services focus on those with the dimmest employment prospects. Practical experience suggests that ***employment services more or less fail to serve experienced experts and those with university degrees.*** Efforts should be made to address this problem, for example by intensifying cooperation between companies and the employee organizations representing people with higher education degrees.

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<sup>11</sup> The names of dismissed employees have to be reported to the Employment and Economic Development Office. By contrast, no such legal requirement exists in respect of employees who hand in their notice (who usually represent the majority in the restructuring programmes).



6. Finland's existing support system includes elements that fail to encourage people to start up a business on termination of employment – a prime example being the low start-up grant as compared to the earnings-related unemployment benefits. ***The system should be amended to ensure that it does not unnecessarily undermine the financial incentive for starting a business.*** In these efforts, use can be made of the experiences gained in France which has introduced a support scheme allowing the flexible adjustment of unemployment benefits and business income.

7. Finland should also consider the adoption of the German type scheme under which ***a company hiring a worker facing redundancy or layoff is entitled to a fixed-term pay subsidy from the employment authorities.*** The subsidy should be more or less equal in amount to the unemployment benefits without any additional costs being incurred as compared to the existing compensation system.

8. Ideally, those who lose their jobs should be able to begin training as soon as practicable. Under the existing regime, the planning of outsourced training cannot start until the employer-employee consultations have been brought to completion. As the planning phase is followed by competitive bidding, there is an unnecessary delay in the commencement of training. One possible solution could be offered by ***advance competitive bidding for training.*** This would make it possible to start the training when needed.

9. Not infrequently, situations arise in business where a given type of expertise ceases to be relevant to Company A's core business whereas it may still remain of interest to Company B. If so, it would be useful if ***companies could agree on the transfer of certain employees directly from one employer to another without any formal termination of employment,*** also in cases when the extremely strict criteria for the transfer of business are not met for one reason or another.

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