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**GOOD HRM AIMS –  
TOUGH CONSEQUENCES:  
FINNISH MNCs' REACTIONS TO THE  
GLOBAL FINANCIAL CRISIS**

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## ABSTRACT

Increased global competition and the ongoing financial crisis have forced even well performing companies to rationalise their operations by conducting personnel cuts or lay-offs. Justification and ethics of the actions has been questioned widely. This paper aims to study the rationale and implementation of the HR-related actions conducted by large Finnish companies during the half year period after the outbreak of the financial crisis. A random sampling was used to pick up 48 companies from the list of the 500 biggest Finnish companies. The data sources of the study are 1) the companies' web pages, press releases and published interviews, 2) articles published on personnel's reactions. HRM approaches that companies were relying on during the financial crisis were classified into soft, neutral and hard HRM philosophies. In the paper the findings are discussed in the light of strategic HRM. Legitimacy of the actions in terms strategic HRM is also discussed.

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# GOOD HRM AIMS – TOUGH CONSEQUENCES: FINNISH MNCS' REACTIONS TO THE GLOBAL FINANCIAL CRISIS

Maarit Viljanen and Satu Lähteenmäki<sup>a</sup>

## 1. INTRODUCTION

Economic down fluctuation in the recent years has dramatically tightened global competition and due to global financial crisis even well performing companies are encountering severe problems to keep their operations running and have rationalised their operations e.g. by conducting personnel cuts and lay-offs or transferring jobs to low-cost countries. Economic crisis can, however, also provoke opportunistic behaviour and be utilised to legitimize ethically questionable changes in HRM strategies. Therefore, justification and ethics of the personnel-related actions has been questioned widely. The actions have been criticised for being unethical and only manifesting the endless greediness of company owners (Lähteenmäki & Viljanen, 2008). Moreover, the ethical ability of human resource management as such has been questioned (Greenwood, 2002). On the whole, the increasing importance of international business has emphasised the ethical dimension of global business practices and especially of employment-related practices (Briscoe et al., 2009).

The purpose of this paper is to study the rationale and implementation of actions conducted by large Finnish companies' during the ongoing global financial crisis. The research questions are as follows: 1) Which are the reactions to the financial crisis? 2) Are the actions that have been carried out in line with business strategy? 3) What do the operations reveal about the underlying HR philosophy and true mindset behind the actions? We are, in particular, interested in the HR-related actions that have been conducted within the half year period after the outbreak of the financial crisis.

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The paper is structured as follows: the next section offers an overview of the theoretical framework of the study. Then the background of the Finnish HRM model is presented. The research methodology and data section is followed by the results of the study. Finally, in the concluding chapter the findings are discussed from different perspectives.

## 2. THEORETICAL FRAME

The number of concepts and definitions of more humane, more ethical and more transparent ways of doing business that are used in academic debates and business environments is enormous (Van Marrewijk, 2003). Corporate Social Responsibility (CSR) is one these concepts and is defined as follows: “*Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large*” (World Business Council for Sustainable Development, 1999). The concept of corporate sustainability is closely related to CSR. From a business perspective sustainability takes into consideration the needs of both current and future company stakeholders such as shareholders, employees, clients, pressure groups, communities etc. (Dyllick & Hockerts, 2002; c.f. Ferrary, 2009).

Greenwood (2002) has presented a conceptual analysis on HRM from an ethical perspective and refers to the concepts of hard and soft HRM. Although Legge (2005) has stated that the discussion around hard and soft HRM models has been replaced by their US-based alternatives of high commitment management (HCM) and high performance work systems (HPWS), the dichotomy between hard and soft is still useful in terms of ethicality. Hard HRM refers to utilitarian instrumentalism i.e. the focus is ultimately on human *resource management*. Contrary to the hard approach, soft HRM reflects developmental humanism and focuses on *human resource management* (Legge, 1989; 2005; Hendry & Pettigrew, 1990). Both models include the assumption of the close integration of HR policies, systems and activities with business strategy (Legge, 1995), but the ultimate expectation of the models is different. Storey (1989, p. 8) depicts the difference between hard and soft HRM

models as follows: *“The hard one emphasizes the quantitative, calculative, and business-strategic aspects of managing the headcounts resource in as ‘rational’ a way as for any other economic factor. By contrast, the ‘soft’ version traces its roots to the human-relations school; it emphasizes communication, motivation, and leadership.”*

While within hard HRM human resources are harnessed to the achievement of the strategic objectives of an organisation and are the equivalent of any other factors of production, soft HRM approach considers human resources as not just any cost factor to be minimised but as a valued asset, which should be treated accordingly. The soft HRM approach sees employees as trustworthy humans, whose competencies are worthy of continuous development (Legge, 1995). Further, a soft HRM approach is comparable to ‘high-road’ HRM striving for increased employee commitment, whereas a hard model is comparable to ‘low-road’ HRM including short-term contracts, a lack of employer commitment to job security, low levels of training and low levels of human resource sophistication (Michie & Sheehan-Quinn, 2001).

Considering that HRM includes the assumption that improved performance is achieved through the people in the organisation (Guest, 1997), better organisational performance and employee wellbeing are not contradictory objectives (c.f. Baptiste, 2008). Instead, such a situation should be the so called win-win situation. Francis & Keegan (2006) have stressed the need for a more balanced HRM model including both human (employee well-being) and economic (strategic) concerns. However, it has been claimed that when companies strive for profitability they are ‘forced’ to resort to HRM actions (e.g. compulsory redundancy), which although consistent with business strategy, are unlikely to generate employee commitment (Legge, 1989; 2005). Thus, the remaining question is: does HRM unavoidably turn hard if it follows the business strategy.

Rousseau's (1995) model of psychological contracts provides a unifying framework for simultaneous analysis of both managerial and individual views. The psychological contract can be defined as *“individual beliefs, shaped by the organisation, regarding terms of an exchange agreement between individuals and their organisation”* (Rousseau, 1995). Two basic terms of psychological contracts are transactional and

relational. Transactional contract is based on a close-ended time frame and mutual profitability. Relational contract, in turn, is based on an open-ended time frame, stability and mutual loyalty. It is typically found in organisations which have a long history and strong traditions. Furthermore, the Rousseau's model includes a transitional contract, which usually occurs in an unstable situation, e.g. during the transition period. The fourth type of contract is a balanced contract, which includes the idea of shared values and mutual commitment.

Psychological contract is partly overlapping with the concept of organizational commitment, which can be defined e.g. as follow: *"1) strong belief in and acceptance of the organization's goals and values; 2) a willingness to exert considerable effort on behalf of the organization; 3) a definite desire to maintain organizational membership"* (Porter et al., 1974). Further, organizational commitment has been divided into different dimensions, e.g. into utilitarian (exchange) and moral-psychological commitment (Gaertner & Nollen, 1989). Utilitarian commitment occurs when an employee gets more utility from current employment relationship than is offered elsewhere, the person is thereby committed. The moral-psychological commitment on the contrary is based on deeper identification with the company (Gaertner & Nollen, 1989). What differentiates psychological contract from organizational commitment seems to be the employees' trust on the employers' willingness to pay back their loyalty. A type of employee commitment and degree of trust between the employer and the employee, however, vary according to the type of business strategy and the corresponding selection, retention and development strategies.

### 3. BACKGROUND OF FINNISH HRM

Low mobility rate and relatively long-lasting employment relationships have characterized the Finnish employment model throughout the history of industrial employment. Both have been built on a wide-spread interdependence between employer and employees and consequently led to an unquestioned expectation of two-sided loyalty. The history of the Finnish manufacturing industry is labelled with names as Serlachius, Rosenlew, Sinerbychoff, Ahlström, Grichton, Berner, Hartwall

etc. These investors (mostly coming from the neighbouring countries) known as 'patrons of the factory' are not only to be thanked for finding Finnish ship building, mining, forest, textile and metal industries, but also for creating a still somewhat existing paternalistic employment culture. Having founded his factory in a distant location 'in the middle of the nowhere' the patron was dependent on the locals, but at the same time practically owned the whole community making the locals dependent on him. Not only were the vast majority of the local people employed by the patron, most of the services in the area: school, grocery store, bank, transportation lines, medical care and even sports club e.g. football team were provided by the factory. This was a real manifestation of socially responsible HRM and existed long before the concept was even invented.

A relational psychological contract and an expectation of lifelong commitment were natural outcomes of the above-mentioned interdependence and they spread to cover the employment culture in most Finnish organizations. The Finnish HRM model that at first glance appears to be soft has thus from the origin had utilitarian motives on both sides (c.f. Rousseau, 1995). Although most of the patrons in the manufacturing industry and even the owner families stepped aside already long time ago, the relational model was really challenged no earlier than by the early 90's recession – a home-made finance crisis of Finland. In order to become a member in EU, Finland had opened the borders for foreign finances late 80's. Consequently loans with low interest rate that were offered by foreign banks became excessively popular and many Finnish companies were serious in-depth in foreign currency at the moment when the Finnish currency had to be devalued by almost 30%. In the aftermath of the collapse of the Soviet Union (that stopped almost third of the export) they had no chances of surviving. An unforeseen number of bankruptcies of SME's and massive adjustment of production capacity by shutting down production sites of large multinational companies (MNCs) turned the Finnish economy into a full scale recession from which the recovering took 5-6 years (Lähteenmäki et al., 1998).

Consequently, during the 90's recession the companies had to cut the number of personnel almost by 20% and the HRM turned hard. This was the start-up for breaking the unquestioned trust on the lifelong commitment and replacing it with the utilitarian model (Gaertner & Nollen, 1989). Ever since the psychological contract has

been bi-polar: relational and utilitarian commitment existing side by side. Especially amongst the workers in the manufacturing industry that are located outside big cities somewhat unrealistic expectations of relational contract prevail. Amongst highly educated professionals – the key personnel that the companies are willing to invest in – the psychological contract has turned extremely utilitarian. The employers in turn fight for being able to introduce balanced contracts with mutual understanding of the goals and expected performance levels for keeping the promises (c.f. Rousseau, 1995) and optimizing investments into personnel by introducing principles of the flexible firm (Atkinson, 1984). Now when the world economy has been hit by a global finance crisis worst ever, there is need to examine how large companies in Finland have reacted against crisis.

#### 4. METHOD AND DATA

The empirical data of the study was collected from 48 large Finnish companies. The companies were selected randomly amongst 500 biggest Finnish companies listed by the Finnish business magazine *Talouselämä*, which determined the list on the basis of company turnover in 2007. After companies were selected their HR-related operations during the period of 1 August 2008 – 31 January 2009 were systematically examined. Data was collected by reviewing companies' web pages and their media sections in particular. Press releases and published interviews concerning operational arrangements (domestic or international investments, shutdowns or interruption of operations, closedowns of units, outsourcing of operations, company mergers, selling company or part of it, redirecting of operations, acquisition of new field etc.), which have an effect on employees through lay-offs, personnel cuts, job transfers or any other changes in terms of employment were examined. In addition, the implementation of possible co-operation negotiations as well as reactions of certain predefined interests groups (employees, employee representatives and general public) to the operations were studied by scanning related articles and other writings published in media.

The analysis procedure was largely data driven. After careful reading of the material collected the data was summarised and collected up into a tables. This was done in

order to get a general view of the data. First, the nature, implementation and justification of the HR-related actions were examined. The responses of employees, employee representatives and general public were also examined. Finally, the findings were contrasted with the published strategy statements of the companies. Based on this we analysed, whether companies have followed the principles of their published strategy and whether they have acted according to the soft or hard HRM policies. In addition, we analysed whether companies have aimed at holding the prevailing psychological contract with their employees during the financial crisis.

## 5. RESULTS

### **HR-related reactions to financial crisis**

The examination of our sample confirmed the fact that the HR-related effects of the financial crisis are widespread. 36 out of 48 companies have announced that they will start co-operation negotiations because they aim at achieving cost savings through adapting their personnel costs to the prevailing financial situation. Great majority of the negotiations (total of 34 cases) concerned personnel cuts (14 cases) or lay-offs (4 cases) or both (16 cases). Resultant reassigns of personnel and planned discontinuance of a company unit or several units were also mentioned as topics of the negotiations. 24 companies had concluded the negotiations by the end of January 2009. As a result, 3 companies will dismiss a group of employees temporarily, 11 companies had ended up cutting the number of personnel permanently and 7 companies will use both lay-offs and personnel cuts. In addition, 3 companies will totally close at least one of its units. Only one company will made temporary shutdown. Further, 3 companies announced that they will transfer jobs to low-cost countries (e.g. India). The following table summarises the results concerning the topics of the announced co-operation negotiations and the results of the concluded negotiations.

Table 1. Announced topics and results of the co-operation negotiations.

<b>Means of adaptation</b>	<b>Topics:</b>	<b>Results:</b>
	<b>announced negotiations (N)</b>	<b>concluded negotiations (N)</b>
Lay-offs	4	3
Personnel cuts	14	11
Lay-offs & cuts	16	7
Permanent shutdown	5	3
Temporary shutdown		1
Job transfers		3
Reassigns	7	8
Pension schemes		6
Reduction of temp. staff		5
Support package		7

Several companies announced that they try to diminish the number of personnel cuts by reassigning personnel, using pension schemes and reducing the number of temporary employees. 7 companies announced that they will take care of the dismissed employees e.g. by supporting their opportunities of fast re-employment, re-education and training, and providing them with outplacement services and financial support.

### **Justification of the actions**

The announced reasons for the required savings were grouped into four categories (see Table 2). Companies usually announced more than one reason for their actions. In most of the cases the personnel cuts and layoffs were justified on the grounds of collapsed market demand (21 cases). To maintain competitiveness and profitability in the current demanding market situation also came up very often (16 cases). Generally it is given to believe that the rationale behind the operations is to secure the company's long-term profitability and the continuation of business in the first place. Prevailing financial crisis as such was also mentioned as a reason for the required savings. In addition, 9 companies announced that the actions are needed because of business rearrangements conducted in order to continue strategy-based growth or to focus to core-businesses, for example.

Table 2. Announced reasons for savings.

<b>Reasons</b>	<b>N</b>
Decreased demand	21
Competitiveness and profitability	16
Prevailing financial situation	15
Business rearrangements	9

### **Reactions of employees and general public**

In general, reactions of employees against personnel reductions have been fairly strong. Employees and general public have expressed their upset, anger and disenchantment mainly in discussion channels and columns both in printed and in electronic media. Some employee walkouts, strikes and stoppages were also arranged, but they were not that common. In addition, employee representatives (union representatives and shop stewards) have expressed their critical opinions in public media. Some of the announcements and actions have, however, been drown in the vast flood of similar kinds of news. It seems that when actions apply to the whole personnel of the company, the reactions of general public are more neutral and understanding than in the case when only blue-collar workers are affected. In one case the lay-offs applying high-paid professionals instead of low-paid employees were even considered as positive signal. Simultaneous employee lay-offs and executive options, in turn, tend to arouse critical voices. Job transfers to the low-cost countries in another issue that caused intense criticism.

### **Underlying HRM philosophy**

After analyzing the actions and strategies of the companies we ended up on the classification presented in the Table 3. Our data indicates that the true mindset behind the operations may follow soft, neutral or hard HRM philosophy. Signals of the soft approach include the use of employee friendly means of adaptation to the changed market situation. Instead of direct personnel cuts, savings are primarily searched through running down production / processes and laying off personnel only temporarily, offering pension schemes and reassigns. In addition, employees that have been made redundant are provided with financial and another kind of re-employment support, e.g. redundancy payment and outplacement services.

Workable dialogue between employer and employee representatives also characterise soft approach. This means that co-operation negotiations are well-prepared and have been conducted in collaboration with employees from the start. As a whole, soft HRM philosophy is long-term oriented and aims at securing the continuation of business in the long run.

HRM approach that is not particularly ambitious in ethical terms is named as neutral HRM philosophy. It includes a concern about employees, which is expressed in public (e.g. in official press releases) but not clearly reflected off actions conducted. Timely co-operation negotiations with proper forewarn are characteristic of neutral HRM. The expressed aim is to minimise direct personnel cuts and to maximise the use of softer means of adaptation. The aim of the HR-related actions is to maintain profitability and to secure the competitiveness of the company in the long run.

HRM philosophy of the companies who just operate in accordance with the minimum requirements determined by a law can be characterised as legal but not ethically admirable. This hard HRM philosophy leads to seeking for the maximal short-term savings and the ultimate aim of the operations is to achieve cost efficiency through cutting the personnel costs. Personnel reductions and other HR-related actions are usually made on the grounds of one-sided employer decision without any forewarns. The ethical concerns within hard HRM are only manifested in company web pages etc., but not in the official press releases, for example.

Table 3. Classification of HRM philosophies.

ADAPTATION	HRM PHILOSOPHY		
	Soft	Neutral	Hard
Purpose	Secure the continuation of business in the long run by investing in people to create commitment	Maintain of competitiveness and profitability	Achieve maximal short-term savings through headcount reduction
Means	Lay-offs, pension schemes, reassigns, outplacements, redundancy payments etc.	Minimum personnel cuts, maximal use of softer means	Personnel cuts
Implementation	Workable dialogue between employer and employee representatives	Official process with proper forewarn	One-sided employer decision without forewarn
End result	Personnel cuts are avoided and softer means are emphasised, support package is provided	Concern about employees is expressed in public	Minimum requirements by a law are fulfilled
Type of fitted psychological contract	Relational, Balanced, looking for mutual utility	One-sidedly utilitarian, temporal	Extremely transactional and utilitarian

## 6. DISCUSSION

The aim of this paper was to study the rationale and implementation of HR-related actions conducted by large Finnish companies' during the global financial crisis. The results of the study clearly demonstrates the immediate impacts of the crisis, since the actions that have taken place within the half year period after the outbreak of the crisis are manifold. HRM approaches that companies were relying on during the financial crisis were classified into soft, neutral and hard HRM philosophies. Within soft philosophy employees are considered as valued assets and the high-road (high commitment) HR practices (Michie & Sheehan-Quinn, 2001) are prevailing. As a whole, soft HRM philosophy is long-term oriented and aims to secure the continuation of business in the long run. Therefore, the so called win-win situation is the sought end result. Within the hard HRM philosophy human resources, on the contrary, are considered mainly as cost factors and the low-road HR practices (short-term contracts, lack of employer commitment to job security etc.) are prevailing (Michie & Sheehan-Quinn, 2001). The hard HRM philosophy leads to seeking for the maximal short-term savings and the violations of psychological contract at the cost of employee commitment are unavoidable (c.f. Legge, 2005).

When the companies were compared with each other, the differences between the HR-related actions were clear. Distinguishing between soft and hard philosophy was easy. Drawing a line between neutral and hard philosophies, instead, was sometimes difficult. The main distinctive factor in the unclear cases was a tendency to avoid personnel cuts or show concern with personnel and to express the concern in public. In addition, neutral philosophy differs from the hard one in the sense that it takes the employee voice into account when implementing the planned actions. The major difference between soft and neutral philosophies, in turn, was that companies relying on the soft philosophy show a concern with employees not only in speeches but in actions as well. In addition, these companies had managed to avoid or at least to minimise the amount of personnel cuts. Even in the case of necessary personnel reductions the companies application of policy had taken care of those made redundant by supporting their re-employment etc.

In general, it seems that the actions that have been carried out are in line with companies' business strategy. Within the scope of this paper, we cannot, however, trace back the real reasons for the arrangements. It is possible that companies use the financial crisis as an excuse to get rid of a group of employees and to achieve maximum cost efficiency. Transfer of jobs to low-cost countries, for example, was justified by customer needs requiring that work is done as cost-effective as possible. In addition to customer needs, the needs of other interest groups (shareholders and employees) are usually included in the companies' strategy manifestations as well. However, it is obvious that transfer of jobs does not serve the interest of domestic employees while it might benefit shareholders. The intense criticism against job transfers by general public supports the notion that employees' solidarity towards their fellow workers ends at the national boarder (Lähteenmäki & Viljanen, 2008).

In addition, the results support our assumption concerning the principles of flexible firm (Atkinson, 1984). It seems that companies are afraid of committing to the whole personnel. Instead, they are willing to invest only in their core employees or key personnel and otherwise prefer to maintain flexibility and transactional psychological contracts. However, some companies have promised to support the re-employment of the employees that have been made redundant by the way of special action plans or employment programmes. We have interpreted these kinds of actions as attempts to maintain employer image and relational psychological contract despite the conducted personnel cuts.

The sample of our study included companies representing three different HRM philosophies. It is likely that if the same actions would have been examined during the economic expansion, hardly any of the HRM philosophies would have been proved to be soft. Therefore, it should be kept in mind that the actions were examined and the companies were compared with each other in relation to the prevailing financial situation. Further, there were also 12 companies that have not been announced or been forced to announce any HR-related actions in order to cut personnel costs. This does not necessarily tell anything about these companies' HRM philosophy or the ethicality of their HRM. Instead, it seems that the industry is a very decisive factor in this sense. Globally collapsed market demand in some industries has forced companies to seek for savings by adopting their personnel cuts.

Forestry is one of the industries that have faced serious difficulties, whereas e.g. retail trade has managed fairly well.

It has become a social norm that companies publish their ethical principles on their web pages. Typically all label themselves socially responsible and green. Sustainable HRM is defined as sustaining the company's competitive position and the labour productivity without jeopardizing jobs and employee well-being (c.f. Docherty et al., 2009). The underlying message that long lasting competitive advantage can only be built via cost-efficient utilization of available human resources worldwide (c.f. Barney, 1991) isn't obviously emphasized. Nevertheless, under the pressures of global competition more and more companies are today launching HRM strategies in which they confirm having adopted the principles of the flexible firm (Atkinson, 1984) and striving for balanced psychological contracts with the employees in replacement of traditional relational contracts as lifelong employment appeared to be no longer meaningful if even possible. Moreover, the HRM strategies needed because of increased competitive pressures are likely to conflict with relational psychological contract. Therefore, it has been suggested that in order to be able to keep their promises, companies need to look for the right kind of mixture of soft and hard HRM (Legge, 1995; 2005).

The rhetoric of strategic management literature has praised companies which are not only productive, but also bear their social responsibility and show high morale. This expectation of ethical behaviour applies as well to environmental issues, product safety as to HRM. In the turmoil of economic fluctuation when companies are fighting for their survival, balancing between long and short term competitiveness while simultaneously trying to maintain their image as good and trustworthy employer, has become extremely challenging. It seems that if a company strictly follows its strategy the HRM easily turns hard in any case. But when the actions are evaluated in the light of the prevailing financial situation, HRM is not that hard anymore. Therefore, we conclude that it is possible to maintain social responsibility and act according to the ethical principles during the financial crisis as well.

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