

# Chapter 8

## The Pursuit of Responsible Business: Corporate Responsibility of Finnish Companies in Their Global Operations

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**Abstract** Nowadays, increasing global business operations call for internationally accepted business conduct and socially responsible management. Since there is no over-the-boundary global legislation, the institutionalization of various CR programs and initiatives is challenging for many globally-operating companies. This is true to a few Finnish, globally operating companies, too. Many businesses and policy researchers have been clarifying the global business environment by normative means, such as the development of various corporate responsibility (CR) management programs or initiatives.

This paper looks at some examples of operations of Finland-based companies in six different operation areas to determine the adequacy of national and international CR initiatives in various operation environments and to map out the institutionalization process behind the CR initiatives. The cases were analyzed using the normative ISO 26000 CR guideline interpreted into the Finnish context by the Finnish Corporate Social Responsibility Network (FIBS). The analysis was expanded beyond the Finnish home market, as the major responsibility debate has concentrated on the international operations of large Finnish companies.

The analysis showed that the Finnish business aimed at proactive CR consideration in the studied cases but failed partly in this target due to three reasons; Finnish trust on local legislations and institutions, inadequate base guideline for CR strategies, and inadequate knowledge on local business environment. The work illustrates the diversity of CR challenges within the global business. The strategic CR approach through the standardized and certified core operations creates a basis for legitimate operations both in home and host countries. Profound understanding of local socio-cultural nuances together with large stakeholder consideration and communication strengthens the legitimacy of the operations promoting CR implementation.

ISO 26000 CSR guideline provided a relatively comprehensive framework for the CR implementation, but the detailed revision of the cases indicated the technical-social social focus of the ISO criteria set. The environmental issues

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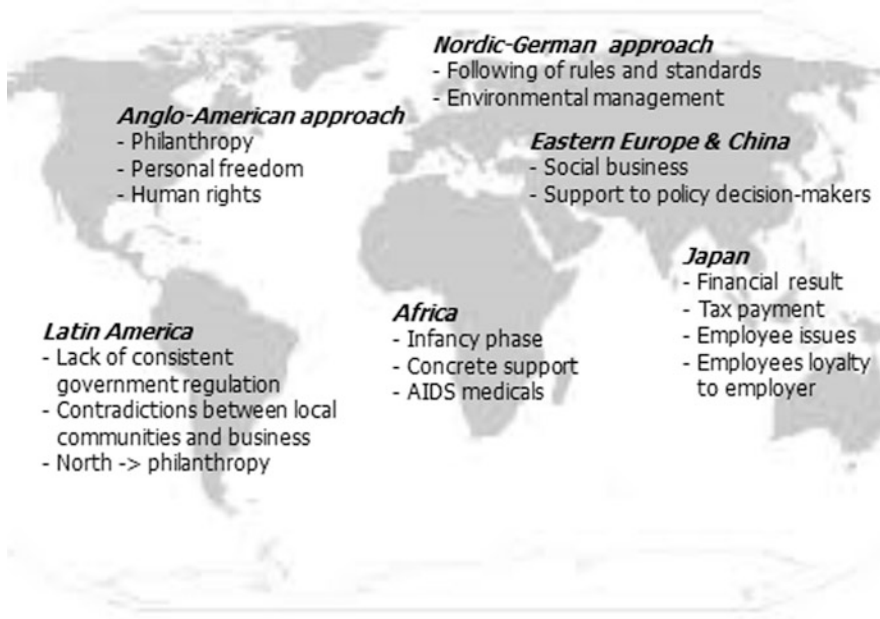
covered well energy, recycling, and clean technology issues, but the case studies showed the relevance to complete the guideline with raw material related issues, such as the origin of raw material and sustainable and equal governance of natural resources. Furthermore, the responsibility towards shareholders is recommendable to consider within a common CR-framework in addition to Corporate Governance.

The companies adjusted the operations proactively according to the understanding of the business environment in addition to the reaction on the business challenges, such as land tenure debate or employee arrangements in the context of production unit closing. A few clues indicated the recognition of the strategic potential of CR practices to produce indirectly benefits, such as good reputation, efficient management through standardized practices, and brand strengthening.

## 8.1 Introduction

The Finnish industries have always been export-oriented due to the limited home market; from the construction of sailing ships to the international clients since the late nineteenth century to the export of telecommunication utilities and various paper products in the 2000s. Over the past decade, with the increased media attention, tightening legislations and different stakeholders' interests, the global business operations have been calling for internationally accepted corporate behavior and socially and environmentally responsible business conduct, both in Finland and abroad. Business, policy, and research actors have been clarifying the business environment by normative means, such as standardization and application of the concept of corporate responsibility owing to the absence of over-the-boundary global legislation (Mikkilä, Linnanen, & Panapanaan, 2015). Corporate social responsibility (CSR), a term often interchangeably used with CR and related concepts such corporate citizenship, corporate sustainability, business in society, and corporate accountability have entrenched their role in business languages and practices during the past two decades. Scholars, business practitioners, and researchers have been defining and qualifying the contents of such an essential business concept. Also stakeholders' communication tools like GRI Sustainability Reporting Framework, launched in 1997, standardize the CR contents of business enterprises (GRI, 2014). Internationally or globally operating large companies have particularly adopted such standardizing practices.

The focus of CR (as promoted by the European Commission's Green Paper) has varied in time in Finland covering all three dimensions, originating from the definition of sustainable development by Brundlandt Commission in 1987, namely economic, social, and environmental responsibility. However, owing to the debate and/or disagreement on the definition and coverage of CSR, many Finnish companies opted for the term "corporate responsibility (CR) to describe more comprehensively the responsibilities of business than CSR in the Finnish context. The use



**Fig. 8.1** Responsibility characters within globally operating pulp and paper industries (Sources: adjusted according to Mikkilä (2006), Mikkilä and Toppinen (2008), CSR Weltweit, 2014)

of CR (rather than CSR) in Finland has been supported by the Confederation of the Finnish Industry and Employers (now Confederation of Finnish Industries) since 2005. In that regard and to avoid confusion with CSR, CR is the term adopted and used in this paper.

Responsibility as such is a value and time bound concept, inevitably reflecting changes in the societal situation and debate with time and place (Mikkilä, 2006). Consequently, the understanding of responsibility may reflect the values of the home country of globally operating companies. For example, the reporting practices of a few, globally operating companies reflect the value base of the company's home country Fig. 8.1.

Figure 8.1 indicates that local and regional understanding of the content of responsible business reflects local and regional religions, values, and norms. Furthermore, political history and society's role in guaranteeing citizens' welfare services may explain the differences. Understanding of this phenomenon deeper was the driving force for the research question of this work: Do international operations of Finnish companies lead to new, global CR initiatives or wider implementation of CR in the host country than in the home country? What is the process of the adoption of CR initiatives both nationally and internationally?

## 8.2 Perspectives on Corporate Responsibility in Finland

Globally, the proliferation of the CR concept has become widespread, and for the last two or three decades, a growing number of companies acknowledge the importance of CR, and thus, CR has become a widespread movement on a global scale. Various perspectives and understanding on CR can be found world-wide depending on the economic, political, socio-cultural, and business environment of a given country. On a global perspective, despite the variations in meaning, understanding, and practice, it is very relevant to ask what CR has got to do with globalization (or global trade in particular). Despite the global economic progress, CR is very relevant in global discussion because globalization today is packed with the plethora of corporate responsibility issues such as climate change and global warming, poverty, human rights, labor, and other contemporary environmental and social issues. By this premise, it is but fitting to look and understand how CR in one country or another is being developed, acted upon, and performed. Finland as a country provides a CR perspective in accordance with its status as a welfare state.

The historical development of corporate responsibility in Finland can be divided into three phases: industrialization, emerging of environmental awareness, and globalization. In this regard, the focus of the responsibility debate in Finland has varied in time covering the three dimensions of corporate social responsibility: economic, environmental, and social responsibility.

The social movement by the industrial and agrarian labor claiming for more reasonable working conditions started the series of movements in the early twentieth century. The environmental dimension dominated the debate at the time of the rise of public environmental awareness from the 1960s until the 1990s. The intensive globalization turned the focus on the global social and environmental responsibility in the late 1990s and onwards.

Public debate around CR is relatively smooth in Finland, and although some discourses are arising and getting seasonal attention, for example economic downturn, election, and closure of production units, open discussion or forum is a conventional and preferred approach in the Finnish corporate world. The discussions about CR have been going on since the early 2000s and were a bit intensified by the European Commission's Green Paper in 2001 (Hietanen, 2002). Most of the discussions have been steered by the Finnish Business and Society (FIBS) CSR Network, which is a part of CSR Europe. Through FIBS, various social partners can actively join and participate in the so called "ethical forum", which promotes the development of CR ideas and practices in Finland.

The Finnish Government launched its decision to support initiatives to strengthen international norms and guidelines related to corporate responsibility in 2012. National CR policy is governed by the Ministry of Employment and the Economy, the Ministry of the Environment (sustainable development), the Ministry of Foreign Affairs (development, human rights, and trade policies), and the Prime Minister's Office (State's ownership policy). Responsibility issues are also dealt with in the Committee on Corporate Social Responsibility, which works under the

Ministry of Employment and the Economy. The Committee is as an advisory body that supports the decision-making (Ministry of Employment and the Economy, 2015).

There is currently no direct legislation in Finland concerning corporate social responsibility (CR). The Finnish government emphasizes the voluntary aspect of CR in its public policy (FIBS, 2015) considering CR well-established in different national policies. The Government supports the projects that strengthen international standards and guidelines for CR, and promotes better integration of responsibility in industrial, development, and trade policies and in public procurement (Ministry of Employment and the Economy, 2015).

The diversity of corporate responsibility concepts showed up within the three Finnish business types in the 2000s: large-scale industries, traditional small and medium-scale enterprises, and newly established innovative start-ups. A few large-scale, globally or nationally but within the international sector operating companies, face global responsibility challenges when expanding their operations to new, emerging markets, commonly with inadequate social and environmental legislations. The companies have adopted international environmental and social management systems, and responsibility reporting to strengthen the operations, but also to concretize the responsibility of the operations for various national and global stakeholders.

The advanced Finnish social and environmental regulation and legislation set an established framework for nationally operating small and medium-scale enterprises (SMEs). The owners perceive little value-added by applying the responsibility concept in the daily business, as the operations are considered mainly responsible as such. The business idea of the third group, recently established start-ups, is commonly business by being responsible, guaranteeing the high societal legitimacy of such business. These actors create business by, for example, recycling various materials or offering social services. The future prospect goes more and more towards the innovation type responsible business. So far, the focus of the SMEs' business has been much on the home market operations (Mikkilä et al., 2015).

Issues or questions about CR typically arise when talking about Finnish companies expanding their business operations in different parts of the world. Questions in this regard could be many, and there are probably no straightforward answers. For example: How do Finnish companies conduct their businesses abroad? What standards or laws do they follow in case of differences? How are the CR values back in Finland reflected in other countries? In order to get some insights and understanding of the global CR aspects and issues management, some operations of Finnish companies in different countries are highlighted in this paper. These cases serve as the main indicators for determining and understanding the various approaches, programs, and initiatives on CR undertaken in each specific country of operation.

## 8.3 Theoretical and Methodological Considerations

### 8.3.1 *Institutionalization of Organizational Behavior*

The first Finnish CR initiatives were based rather on the ad-hoc reaction on cases at hand, for example employees' position when closing production units and outsourcing, industrial pollution and acceptable utilization of natural resources, than systemized CR strategies in the international operations in the 1970-1990s when the entire CR concept was relatively new among the industries. This led to an intensive CR debate and institutionalization of CR approach by governmental, non-governmental, and industrial sectors in the 2000s. Both governmental and non-governmental sectors adopted international CR guidelines widely. The industries standardized the operations by launching CR policies and management and reporting practices, such as the application of GRI.

This phenomenon guided the theoretical basis in the presentation and analyses of the cases which are based on institutional organization theory (Powell & DiMaggio, 1991). Theory and research on institutionalization have generated understanding of the processes that define and explain institutionalization in organizational environments and their influence on organizational conformity to the environment (Oliver, 1991). The central assumption of the institutional theory is that institutional environments exert a potent conforming influence on organizations, attention. Social, economic, and political factors constitute an institutional structure of a particular environment, which provides firms with advantages for engaging in specific types of activities there. Businesses tend to perform more efficiently if they receive institutional support. However, Oliver (1991) recognized that the institutional perspective has also been increasingly criticized for its lack of attention to the role of organizational self-interests and active agency in organizational responses to institutional pressures and expectations.

Within the framework of institutionalization, Finnish CR initiatives are analyzed in six different operation environments to understand whether the organizational self-interest, adjustment of practices from the operation environment, or some other strategy guides the CR initiative in the studied cases.

### 8.3.2 *Cases Representing Global Commercial Partners*

The Finnish CR initiatives were analyzed through selected cases in a few strategic commercial partner countries; namely Russia, Germany, China, the U.S.A., and Brazil Table 8.1. In addition to the commercial relevance, the chosen countries represent different political and economic backgrounds and geographic locations to illustrate the diversity of CR demands in various places.

Finnish principal exports are: telecommunications equipment, passenger cars, and forestry products. Finland is a major producer of paper and paperboard and

**Table 8.1** Main trading partners of Finland in 2013

|     | Country                  | Imports        |             | Export        |            | Trade balance |
|-----|--------------------------|----------------|-------------|---------------|------------|---------------|
|     |                          | € million      | %           | € million     | %          | € million     |
| 1   | <b>Russia</b>            | <b>10 521</b>  | <b>18.0</b> | <b>5 359</b>  | <b>9.6</b> | <b>-5 162</b> |
| 2   | Sweden                   | 6 693          | 11.5        | 6 489         | 11.6       | -204          |
| 3   | <b>Germany</b>           | <b>7 355</b>   | <b>12.6</b> | <b>5 419</b>  | <b>9.7</b> | <b>-1 936</b> |
| 4   | The Netherlands          | 3 374          | 5.8         | 3 457         | 6.2        | 83            |
| 5   | <b>China</b>             | <b>3 6 179</b> | <b>6.3</b>  | <b>2 766</b>  | <b>4.9</b> | <b>-913</b>   |
| 6   | <b>The United States</b> | <b>1 962</b>   | <b>3.4</b>  | <b>3 561</b>  | <b>6.4</b> | <b>1 599</b>  |
| 7   | The United Kingdom       | 1 859          | 3.2         | 2 916         | 5.2        | 1 058         |
| 8   | France                   | 1 924          | 3.3         | 1 827         | 3.3        | -97           |
| 9   | Estonia                  | 1 688          | 2.9         | 1 748         | 3.1        | 59            |
| 10  | Belgium                  | 1 228          | 2.1         | 1 922         | 3.4        | 694           |
| ... |                          |                |             |               |            |               |
| 19  | <b>Brazil</b>            | <b>796</b>     | <b>1.1</b>  | <b>939</b>    | <b>1.2</b> | <b>143</b>    |
|     | Other countries          | 18 124         | 31.0        | 20 585        | 36.7       | 2 461         |
|     | <b>Total</b>             | <b>58 407</b>  | <b>100</b>  | <b>56 048</b> | <b>100</b> | <b>-2 359</b> |

Source: Observatory of Economic Complexity (2014), Statistics Finland (2014)

accounts for a large percentage of the world export market (10.7 %) (Observatory of Economic Complexity, 2014). The listed major trading goods are reflected in the analyzed cases here.

### 8.3.3 Characteristics of Business Environment

With respect to Finland, the differences between the selected case countries; Germany, Russia, China, the U.S.A., and Brazil; were characterized through the business environment framework. The framework was outlined on the basis of the current Finnish business environment and CR's role in it Table 8.2.

The political system in Finland, democratic Nordic welfare state, defines much the national level responsibility requirements set for the private sector. Many CR related issues are covered by wide social and environmental legislation in Finland (Mikkilä et al., 2015).

The CR approach is based on Halme and Laurila's (2009) model of business integration of corporate responsibility types and the potential for expected financial and social benefits. The model outlines the three types of corporate responsibility: philanthropic CR, CR Integration, and CR Innovation. Philanthropy tends to be the least integrated with the core business of the company, whereas the CR Integration and CR Innovation approaches are more tightly interwoven with the core business.

The general business environment is assessed through the ranking in the corruption perception index 2013 by Transparency international (2014). On one hand, the index is a well-known, generally accepted indicator describing the business

**Table 8.2** Business environment elements

| Indicator                   | Explanation  |
|-----------------------------|--|
| State's responsibility      | State's role in guaranteeing the wellbeing of its citizens: Nordic, conservative, liberal, limited welfare state |
| National system             | Democratic, liberal, transition, communistic market economy  |
| CR approach                 | Philanthropy, CR Integration, CR Innovation by Halme and Laurila (2009)  |
| Business values: corruption | Ranking in Corruption perceptions index 2013 by Transparency International (2014)                                |
| Freedom of speech           | Local people's, NGOs' and medias' role in the business environment   |

values and atmosphere in the listed countries. On the other hand, cultural interpretations of corruption as a business element vary significantly in the globe (see, for example, de George (1997), Hofstede (1991), Irwin (2012)). Regardless of the cultural interpretations, the index shows the ranking of countries by an independent organization. The index assesses the business environment with the same, non-culturally bound criteria throughout the world providing comparable numeric information.

The freedom of speech represents the potential external pressure towards business operations within the indicator set. It also reflects the transparency of operations. Local people, non-governmental organizations, and media can bring to the front business drawbacks in operation areas with large freedom of speech, hence, promoting transparent operations of business enterprises. Business sector has more space for irresponsible operations in areas with limited social debate.

### 8.3.4 CR Indicator Review

Potential global CR initiatives were reviewed by aggregating the findings and outcomes from the previous work qualitatively, following the analysis path by for example Miles and Huberman (1994) and Yin (2003). The replication strategy by Yin (2003) was followed by studying one case, Finland, in depth. Then successive cases, that is, the selected operational cases in the partner countries, were examined to see whether the international operations lead to the wider application of CR practices than national level operations. A qualitative dual comparison between Finland and the chosen operative areas of Finnish companies was carried out.

The applied data was secondary, publicly available material, such as newspaper articles, previous researches, CR and sustainability reports of Finnish companies, and websites of international organizations.

The available material was analyzed qualitatively within the international framework of ISO 26000-standard modified into the Finnish context by FIBS Table 8.3. The ISO-framework is generally applied by FIBS (2015), the non-profit Finnish Corporate Social Responsibility Network, in the case studies and further



**Table 8.3** CR elements by ISO 26000-standard according to FIBS

| CR Element                     | Content   |
|--------------------------------|---|
| Environmental issues           | Energy efficiency, waste management and recycling, avoiding of hazardous materials, environmental impact analysis, water consumption efficiency, investments in clean technology, environmental issues in product design, recycled materials, renewable energy  |
| Equal and just practices       | Equitable competition, responsible criteria in purchasing, recognizing of corruption risk, creation of anti-corruption system, tax payment, creation of lobbying practices, transparency  |
| Employment practices           | Health and safety development, personnel training and development, development of employee wellbeing, promotion of equality and diversity, stakeholder dialogue   |
| Governance                     | CR strategy, targets and goals, employee opinions in CR development, adoption of CR practices throughout the organization, assessment of the governance through CR, CR in the compensation and incentive practices, gender balance in the top management  |
| Consumer issues                | Proper and objective marketing, respect of consumer privacy and information, guaranteeing of product safety, consumer enlightenment and information, supporting of sustainable consumption, design for all and accessibility principles in product and service planning, promotion of fair trade and ethical products |
| Human rights                   | Prevention of discrimination, freedom of association, rights of local societies, organizational human rights, risk analysis and due diligence, prevention of child and slave labor, employment of weaker society members  |
| Development of local societies | Support of local societies, charity, support of personnel's volunteering, hearing of local societies, consideration of employment in investments, outsourcing and technology, solving of societal problems through product and service development  |

Source: FIBS (2015), ISO (2010)

development of national level CR practices. Furthermore, FIBS initiatives and policies are widely known and applied in the Finnish society, having no major commercial connection. Hence, this framework was considered a solid and generally known basis for the analysis here.

## 8.4 Potentiality for Global CR Initiatives

### 8.4.1 Business Environment Description

The business environment of the studied cases is summarized in Table 8.4 CR in Finland was described earlier, but the other cases are analyzed briefly below.

**Table 8.4** Characteristics of the business environment in the analyzed cases

| Indicator                   | Finland                   | Russia                                 | Germany                   | China                                  | U.S.A.                 | Brazil                                 |
|-----------------------------|---------------------------|--|---------------------------|--|------------------------|--|
| State's responsibility      | Social welfare state      | Transition: State-controlled → liberal | Corporatist welfare state | Fragmented liberal-conservative        | Liberal welfare state  | Emerging welfare state "Bolsa Família" |
| National system             | Democratic market economy | Market/transition economy              | Democratic market economy | Socialistic market economy             | Liberal market economy | Liberal market economy                 |
| CR approach                 | Integration—innovation    | Infancy                                | Integration—innovation    | Infancy                                | Philanthropy           | Philanthropy                           |
| Policy initiatives          | Few                       | Few                                    | Few                       | Few                                    | Few                    | Few                                    |
| Business values: corruption | 3                         | 127                                    | 12                        | 80                                     | 19                     | 72                                     |
| Freedom of speech           | Large, active NGOs        | Partly limited                         | Large, active NGOs        | Limited, NGOs' and medias role limited | Large                  | Large                                  |

Source: CSR Weltweit (2014) European welfare states (2014), Ringen and Ngok (2013), Glenn (1996), Transparency International (2014), World Bank (2014)

#### 8.4.1.1 Russia

The economic development targets seem to exceed the CR initiatives in Russia. CR concepts and strategies are still in their infancy since a radical change of the political-economic system from the communism to the market economy in the early 1990s even though the launching of the concept started simultaneously with the European CR boom. In 2003, the Russian president made a statement about CR during the XIII Congress of the Russian Union of Industrialists and Entrepreneurs (Maksimova, 2014). Leading Russian companies follow the global trend of integration of CR into the corporate strategy for all types of corporate social performance, including corporate philanthropy. However, the Soviet tradition is still reflected in the context of CR in that large companies are essential parties in the design of social life in their local operation environments, especially in areas with a weak infrastructure. (CSR Weltweit, 2014, Kostjuk, 2005; Maksimova, 2014). However, the historical business style and societal changes have created a challenging, non-transparent business style in Russia (Maksimova, 2014) that is reflected in the ranking of Russia in place 127 in the Corruption perception index 2013 (Transparency international, 2014). Also, the freedom of speech can be considered limited, as the state observes closely the media and the activities of non-governmental organizations.

#### 8.4.1.2 Germany

The CR indicators in Finland and Germany remind much each other. The state has a relatively large responsibility in providing welfare services to the citizens within the market economy system. Habisch and Wegner (2005) listed strong trade unions and business associations, religion-based institutions, professional associations and chambers together with a strong state with large social responsibility as main reasons for the marginal space and need for individual and organizational CR initiatives. The well-established system together with the low corruption grade and extensive certification of traded goods provides a stable operation environment for the industries located in Germany. There are a number of environmental and other types of non-governmental organizations due to the German green tradition since the 1970s (Habisch & Wegner, 2005). It can be concluded that Germany applies widely the CR integration type approach in business.

#### 8.4.1.3 China

CR receives little media coverage in the Chinese media, and CR plays a marginal role in the majority of Chinese companies (CSR Weltweit, 2014). World Bank ranked the People's Republic of China the world's second largest economy by GDP based on purchasing power parity (PPP) in 2013 (World Bank, 2014b). Regardless

of the economic success, the Chinese welfare system is under threat due to a huge number of ageing population living in a vast country. The private sector shares the responsibility with the public sector, as a growing number of companies are doing their part by enrolling their workers in government programs that grant industrial injury benefits, maternity leave, and unemployment benefits (OECD, 2014). However, these initiatives are either legal social obligation or a part of the cultural tradition than a CR implementation.<sup>1</sup> Large state owned companies and foreign companies investing in China are expected to increase their social involvement. Foreign companies are increasingly involved in environmental and labor projects (CSR Weltweit, 2014). Social challenges and traditions are reflected reasonably in the corruption ranking index as China holds the 80th place among the total of 177 ranked countries (Transparency international, 2014).

#### **8.4.1.4 U.S.A.**

The liberal market economy, U.S.A., has a long tradition in CR issues. The government passed laws to address pollution and hazardous waste control in the late 1960s and early 1970s, due to the social and environmental concerns that arose (Tschopp, 2005), like described for example in the classic novel “Silent Spring” by Rachel Carson (1962). Later on, Carroll (1979) launched the multidimensional construct of CR, which included the elements of economic, legal, ethical, and discretionary responsibility. The approach set the basis for the philanthropic CR, as CR is much interpreted in North America even though the conceptualization has been diversified since that. The U.S. council for corporate responsibility (2014) visions CR with the model of seven pillars embodied in diversity and inclusion, environmental sustainability, governance, global enrichment, organizational health, philanthropy, and supply chain integrity.

#### **8.4.1.5 Brazil**

Brazil is a democracy being the largest country in the South America with abundant and diverse cultural and natural resources (Brazil, 2014). Brazil’s development has been positive in terms of economic and social indicators during the past decades. One booster for the positive trend was the reforms, such as the pension system renovation, the increasing of minimum wage, and several others, launched by the former president’s, Luis Inácio Lula da Silva (2003–2011) (Ministry for Foreign Affairs of Finland, 2007). The relevance of the social responsibility continued in the

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<sup>1</sup> Chinese society is heavily influenced by the traditional values associated with Confucianism, which promotes a strict system of norms and property determining how a person and organization should act within a. The traditional values, including various gift giving can have a significant role in employees’ behavior in a corporate setting (Irwin, 2012).

governmental program of Bolsa Família, an innovative social initiative supported by the World Bank. The virtue of the Bolsa Família is that it reaches a significant portion of Brazilian society that has never benefited from social programs (World Bank, 2014a).

CR has also long roots in the Brazilian business being a part of the Brazilian public debate since the 1960s. The role of companies is seen primarily in terms of providing workers with an acceptable income and a secure and regular job leading to the adoption of philanthropic approach to CR by Brazilian enterprises. Recently, the presence of foreign companies in Brazil has promoted the shift from philanthropy to an emphasis of sustainability in CR interpretation by Brazilian companies (CSR Weltweit, 2014).

## ***8.4.2 Specific Case Features and Issues***

### **8.4.2.1 Sharing of Responsibility Between the Government and Private Sector in Finland**

Two large-scale industries have been involved with a large responsibility debate in Finland in the 2000s; a pulp and paper company, Stora Enso, in the so-called Upper Lapland case and the mining company Talvivaara concerning its financially, socially, and environmentally hazardous operations in the eastern Finland in the 2010s.

The pulp and paper company Stora Enso, was one of the major wood purchasers in an Upper Lapland area where Metsähallitus (Finnish Forest and Park Services) has a legal right to log state-owned forests. The same area is a historical winter pasture for reindeer. Thus, the logging of the forest area is a threat to the traditional Sami lifestyle. Greenpeace launched a campaign to inform the European paper consumers that valuable indigenous forests were being logged, and the rights of indigenous people were being violated in the area in 2002. Due to the consequent pressure from the European clients and unclear legal land use right status, Stora Enso drew back from the Upper Lapland business (Mikkilä et al., 2015). The debate calmed down by the end of the first decade of the 2000s. Metsähallitus agreed the conflict with the reindeer herders in 2010. The land tenure and traditional rights of the Sami people are still to some extent loosely defined (Yle, 2010a).

Talvivaara Mining Company Plc. purchased the rights to mine the Talvivaara deposits from Outokumpu Plc. in February 2004 (Talvivaara 2015a). Throughout the operational history, the company suffered from financial, social and environmental hazards. The company was marketed to the potential shareholders as an attractive investment capturing the financial benefits from rich sulfite deposit, flexible environmental regulations and cost efficient bioheapleaching technique at the time of listing. The company faced continuous challenges with the water storage capacity of gypsum ponds. Due to the inadequate water treatment capacity, non-treated process water was led several times to the natural water ecosystems.

In addition, the company reported a few sulfur emissions, the most serious of them leading to an employee's decease in 2012 (Talvivaara 2015b).

A Talvivaara subsidiary which holds all of the group's mining assets applied for bankruptcy protection in 2014 following a drop in nickel prices, repeated production disruptions and environmental damage. The Finnish government set aside a further 97 million euros to help restructure Talvivaara if a private buyer is found, but might otherwise shut down the mine (Reuters 2015).

The cases showed that regardless of the existing, relatively clear legislation and established institutional framework, there are still cases that the traditional rights and environmental issues are not taken into account and place for the social, environmental and financial hazards of which the Government carries the final responsibility.

#### **8.4.2.2 Promotion of Local Businesses in Russia**

Finland and Russia have had a close commercial relationships throughout the history; from Czar Russian business, through long-term, secure bilateral deals at the Soviet time to the challenging business between the current Russia and European Union Finland. Politics has been an essential element of the business relationship, and the membership of Finland in the European Union diversified further the role of politics since the 1990s and onwards. Simultaneously, Finnish companies started to expand their eastern operations by purchasing and establishing production units and distribution channels.

The business challenges are concretized through, for example, the round wood export ban set by the Russian Government in the 2000s (Yle, 2013c) and import ban to European foodstuff—the latter as an objection to the import ban of some Russian products set by the European Union (EU). The Russian government aims at strengthening the country's economy by import ban-like initiatives that lead to the establishment of business units and consequent value creation in Russia. The operations of Finnish companies, such as a dairy company, Valio, were allowed to continue in Russia (Ria Ria Novosti, 2014). The actions influenced Valio's strategy of establishing local production units to increase the share of locally produced dairy products instead of imports from Finland.

Valio's operations were also investigated by the Russian police in 2014 when the police searched Valio's St. Petersburg offices in August 2014 in a probe unrelated to Valio's operations but involving alleged money laundering by an unrelated entity, according to Russian investigators. Although Valio and its subsidiaries were not directly accused on money laundering, the authorities searched evidences of money transfers to Valio's subsidiaries' accounts by members of the criminal world (Wall Street Journal, 2014).

The key initiatives risen from the Russian operation environment can be summarized as the support of national and local economies by the establishment of local production units, good relationships with local authorities and policy makers to guarantee the legitimacy of operations. Also, philanthropic type of CR came out of

the Russian business cases in terms of wider social responsibility on local societies, based on the Soviet history. The case supported also the findings of CSR Weltweit (2014) that foreign companies are generally under stricter observation than domestic companies, when it comes to the legality and responsibility of operations.

### 8.4.2.3 Employee Issues in Germany

Finnish industries have expanded their operations to Central Europe intensively since the 1990s, mainly by purchasing existing production units. Later on, part of the mills were closed down due to the economic reasons. For example the former Finnish cell phone company Nokia closed the Bochum facility and moved the production to Romania with the lower wage and other production costs due to profitability reasons in 2008 (Bloomberg Businessweek, 2008). The pulp and paper company UPM-Kymmene appealed to the over capacity of paper production in Europe when closing down, for example, the unprofitable Albrück paper mill in Baden-Württemberg in 2012 and one paper machine at its Ettringen mill in 2013 (Kauppalehti, 2012; Yle, 2013a).

The companies carried out legal responsibilities towards the employees during the closing processes by providing various social arrangements, such as pension schemes, support for re-employment, relocations within the company, re-training and compensations payments (UPM, 2011). However, the Finnish companies were strongly criticized on greediness and irresponsibility due to mill closures. The mass circulation newspaper Bild reported also on speculations that the Romanian government lured Nokia with the help of subsidies from the European Regional Development Fund (Bloomberg Businessweek, 2008).

The main CR elements raised from the cases legal and free willing reimbursement of outsourced employees, stakeholder dialogue, and rights of the local people.

### 8.4.2.4 Local People's Rights in China

The culture is reflected in the CR expectations by the government officials favoring CR in the People's Republic of China, as a way of achieving the goal of a harmonious society, much in terms of positive CR effect on areas of social concern (CSR Weltweit, 2014). Business operations within this framework are commonly challenging for foreign companies. Foreign companies have no code of conduct regarding CR implementation, but they need to clarify the content of CR by learning by doing, like the case Stora Enso demonstrates. The company is establishing a mill complex consisting of a pulp mill and board machine including support functions like a power plant, in the autonomous region of Guangxi, Southern China being in place since the early 2000s. Stora Enso aims at producing the raw material on the tree plantations around the mill leasing the land both from the Government and local societies. Around one third of the land has been leased

either directly from the villagers or through local business men who have leased the land originally from the villagers (Stora Enso, 2014b).

The recent land reform of the People's Republic of China that provided farmers guaranteed land tenure rights to forest areas turned the middleman based land leasing procedure close to illegal or broke at least the spirit the land reform. The middlemen were also prosecuted crimes and non-acceptable manners in the land leasing process. The company admitted deficiencies of some contracts and started scrutinizing the land leasing agreements and correcting the content of incomplete documents in the late 2010s (Yle, 2010b).

The case illustrated the relevance of socio-cultural, political, and economic CR elements in the large-scale, land intensive business; rights of local people, transparent operations, legality, legitimacy of operations, co-operations with local stakeholders, responsibility on the actions of counterparts and sub-contractors. The business case showed that the operations are not automatically legal or follow the spirit of legislation if they are implemented in the close co-operation with local authorities and specialists. The company and its shareholders carry the final responsibility in moral questions. The understanding of local nuances requires profound understanding of local cultural traditions in addition to the knowledge on legal and economic aspects.

CR question are rather raised by the media of the home countries of the companies operating in China as demonstrated by the Finnish case Stora Enso. The land leasing manifestations were largely reported in the Finnish and European media. In addition, the chain of events resulted in a document movie, Red Forest Hotel (2014).

#### **8.4.2.5 Shareholder Issues in the U.S.A.**

The world's largest economy, the U.S.A. (World Bank, 2014a, 2014b) has large and diversified home market and industries. Both of the globally operating pulp and paper companies, Stora Enso and UPM-Kymmene aimed at encapturing their share of the North American highly competed markets in the late 1990s–2000s by purchasing local companies, North-American Consolidated Papers Ltd. and a Canadian Miramich printing paper mill in the early 2000s. Both companies ended up to sell the production units with low price in the late 2000s after a series of financial challenges (Helsingin Sanomat, 2007).

The telecommunication giant, Nokia, had a good position in the North American cellphone markets in the 2000s. Nokia's clients lost the trust on the strategy of co-operating with Microsoft software house to develop Windows smart phones leading to the significant decrease of the share value in the 2010s (Kauppalehti, 2013). Microsoft purchased the Devices & Services functions of Nokia in 2013 (Nokia, 2014).

The North American cases showed, most of all, the relevance of considering economic responsibility as a part of global CR initiatives. The presented cases raised the debate in Finland on the company's responsibility towards its



shareholders, as the shareholders suffered the final consequences of failed operations in the U.S.A.

#### **8.4.2.6 Implementation of Social Policy in Brazil**

The official CR expectations towards foreign companies are reasonable in the politically stable Brazil. However, foreign companies can find themselves caught between a rock and a hard place: corruption and active civic society. Local business practices seem to include corruptive element based on Brazil's ranking number 72 in the corruption index in 2013 (Transparency International, 2014).

Brazil is an attractive expansion area for natural resource based industries due to the favorable ecological conditions leading to high yields of biomasses. Brazilian Fibria and Finnish Stora Enso established together Veracel, an integrated agro-industrial undertaking, with large eucalyptus plantations and pulp mill (Veracel, 2014). Major stakeholder concerns in the Veracel case and Brazil generally, relate to land ownership and land use, landless and indigenous people's rights, the water use of plantations, and local social and development issues related to poverty. In addition, Veracel's large-scale land ownership and the consequent elevation of land prices have been a major concern among some stakeholders. The company has agreed with the state government on social initiatives to invest its tax refund in local development programs including associations set up for small-scale producers and indigenous farmers (Stora Enso, 2014c).

Regardless of the social initiatives, Veracel has been criticized on operating on areas with unclear land tenure status. Indigenous pataxó-groups blame Veracel on the use of their traditional, cultural land areas as eucalyptus plantations. It is possible that the company must discontinue some areas in benefit of pataxos. The predecessor of Fibria, Aracruz, had to hand over some plantations, and pay a compensation of 1.5 mill. Euros to the Tupinikim people in Espírito Santo state, southern part of Brazil (Taloussanomat, 2014).

The major challenge for responsible business is the unclear political framework that leads to contradictions between local societies and business enterprises. Furthermore, the expectation of local people and authorities go beyond the legal obligations; the foreign company is expected to follow the local practices of larger social responsibility. The case showed also the relevance of local people's rights, and their consequences on the economic profitability was emerged through the production input issues, that is, land tenure questions.

#### **8.4.3 Synthesis**

ISO 26000 CSR guideline provided a relatively comprehensive framework for the CR implementation, but the detailed revision of the cases indicated the technical-social focus of the CR set. The guideline includes a set of process related

environmental issues, good governance, employee issues, fair market behavior including consumer issues and product safety, philanthropy, and human rights Table s8.5.

The environmental issues of ISO 26000 CSR guideline covered well energy, recycling, and clean technology issues. The Finnish, Chinese, and Brazilian examples demonstrated the relevance of the raw material basis of the value add chain, like the issues related to the origin of raw material and sustainable and equal governance of natural resources within the global CR initiatives.

Companies list commonly the responsibility towards investors and stakeholders in their governance criteria even though this may not be reflected well enough in the risk analysis and investment decisions. The Finnish, German, and North-American cases demonstrated the relevance of the responsibility towards shareholders within a common CR-framework in addition to Corporate Governance.

The operations in challenging operation areas like Russia, China, and Brazil concretized the relationship between local business practices, relationships to local decision makers, responsibility on suppliers' operations and international policies, and further impact on local employees and societies around the cases. Furthermore, the development of local economies increases the political power of the business entity. This makes the operation even more sensitive in challenging operation environments increasing the responsibility of the business sector. Although such financial-political issues have direct connection with CR, they seem to be missing from the Finnish application of ISO 26000 CR guideline.

The analysis concretized the sensitiveness of a few sectors, for example the mining industry-case Talvivaara, food-related Valio-case, indigenous people and forests in Upper-Lapland, and Veracel-agri-business case. Food is an essential good for all people. Natural resources based business, such as biomass, food, and wood production, are operating commonly on large land areas impacting on the lives of a number of people.

The synthesis illustrated the diversity of CR challenges within the global business. The strategic CR approach through the standardized and certified core operations creates a basis for legitimate operations both in home and host countries. Profound understanding of local socio-cultural nuances together with large stakeholder consideration and communication strengthens the legitimacy of the operations promoting CR implementation. Commonly, the companies need to carry out larger social responsibilities in their global operation compared to the legal obligations in the home country, such as the establishment of health services and support of education.

**Table 8.5** Comparison between CR framework by FIBS and the studied cases

| CR Element  | Finland | Russia | Germany | China | U.<br>S.<br>A. | Brazil |
|---|---------|--------|---------|-------|----------------|--------|
| <b>Environmental issues</b>   |         |        |         |       |                |        |
| Energy efficiency, waste management and recycling, avoiding of hazardous materials, environmental impact analysis, water consumption efficiency, investments in clean technology, environmental issues in product design, recycled materials, renewable energy  | X       |        |         |       |                | X      |
| <b>Origin of raw materials</b>  | X       |        |         | X     |                |        |
| <b>Land tenure</b>  | X       |        |         | X     |                | X      |
| <b>Rights to natural resources</b>  | X       |        |         |       |                | X      |
| <b>Equal and just practices</b>   |         |        |         |       |                |        |
| Equitable competition, responsible criteria in purchasing, recognizing of corruption risk, creation of anti-corruption system, tax payment, creation of just lobbying practices, transparency   |         | X      |         | X     |                | X      |
| <b>Employment practices</b>   |         |        |         |       |                |        |
| Health and safety development, personnel training and development, development of employee wellbeing, promotion of equality and diversity, stakeholder dialogue   | X       |        | X       | X     | X              | X      |
| <b>Governance</b>   |         |        |         |       |                |        |
| CR strategy, targets and goals, employee opinions in CR development, adoption of CR practices throughout the organization, assessment of the governance through CR, CR in the compensation and incentive practices, gender balance in the top management  |         |        |         |       |                |        |
| <b>Responsibility towards shareholders</b>  | X       |        | X       |       | X              |        |
| <b>Consumer issues</b>  |         |        |         |       |                |        |
| Proper and objective marketing, respect of consumer privacy and information, guaranteeing of product safety, consumer enlightenment and information, supporting of sustainable consumption, design for all and accessibility principles in product and service planning, promotion of fair trade and ethical products |         |        |         |       | X              |        |
| <b>Human rights</b>   |         |        |         |       |                |        |
| Prevention of discrimination, freedom of association, rights of local societies, organizational human rights, risk analysis and due diligence, prevention of child and slave labor, employment of weaker society members  |         |        | X       | X     |                |        |

(continued)

**Table 8.5** (continued)

| CR Element   | Finland | Russia | Germany | China | U.<br>S.<br>A. | Brazil |
|--|---------|--------|---------|-------|----------------|--------|
| <b>Equal and just practices</b>  |         |        |         |       |                |        |
| Support of local societies, charity, support of personnel's volunteering, hearing of local societies, consideration of employment in investments, outsourcing and technology, solving of societal problems through product and service development | X       | X      | X       | X     |                | X      |
| <b>Financial and economic issues</b>   |         |        |         |       |                |        |
| <b>Support of local (national) economies</b>   | X       | X      |         | X     |                | X      |
| <b>Relationship to organized criminal world</b>  |         | X      |         |       |                |        |
| <b>Responsibility on suppliers' operations</b>   |         |        |         |       |                | X      |
| <b>Influence on local economies (land value)</b>   |         |        |         |       |                | X      |
| <b>Policy aspects</b>  |         |        |         |       |                |        |
| <b>Responsibility of governments related to business operations</b>  | X       | X      |         |       |                |        |
| <b>Political actions (import bans)</b>   |         | X      |         |       |                |        |

Source: FIBS (2015), ISO (2010), findings from the study (bold concepts)

## 8.5 Conclusions

The Finnish business aimed at proactive CR consideration in the studied cases but failed partly in this target due to three reasons; Finnish trust on local legislations and institutions, inadequate base guideline for CR strategies, and inadequate knowledge on local business environment.

CR development has been an institutional process in Finland: the debate raised in the late 1990s after the period of environmental debate. Especially the natural resource based industries, such as the pulp and paper sector, recognized the inadequacy of the Finnish approach abroad; high working moral and following of local legislation and the respect of local norms did not necessary lead to successful business operations, like the studied cases showed. The globally operating companies recognized the need first and the governmental and non-governmental sectors followed in creating a set of standards and definitions for the concept following much the international guidelines.

The trust on the international guidelines may have led to the situation that the diversity of the local business environments has not been studied profoundly enough. The case companies have developed further the CR policies and practices when the understanding of operation environments increases.

Currently, it seems that the Finnish CR approach has been institutionalized to one direction; from home country to host country. The companies have a standardized CR framework adjusting the details according to local circumstances, norms, and institutional framework. The work supports also new, export oriented enterprises, especially SMEs in preparing their expansion strategies. There are so far little evidence on the reciprocal phenomenon; integration of new CR elements into the home country practices. It rather seems that the companies continue business as usual within the Finnish legal framework supported by the defined, international based CR framework. Many of the elements risen from the international cases are not perceived relevant in the Finnish business context. Hence, it may not be considered resource-wise efficient to build a comprehensive set of CR initiatives based on such observations. However, both Finnish cases, the utilization of indigenous forests in Upper-Lapland and mining industry in Eastern Finland, showed that many global CR issues are relevant also in the national context.

The study resulted in rather organizational self-interest and active agency in organizational responses to institutional pressures and expectations than the traditional approach of the institutional organization theory; firms aiming at engaging in specific types of activities according to the institutional structure of a particular environment. The companies adjusted the operations proactively according to the understanding of the business environment in addition to the reaction on the hazardous cases. There were a few clues that the companies recognized also the strategic potential of CR practices to produce indirectly benefits, such as good reputation, efficient management through standardized practices, and brand strengthening.

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