

The Impact of Economic Crisis on HRM Practices in Estonia

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Aalto University
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ABSTRACT

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THE IMPACT OF ECONOMIC CRISIS ON HRM PRACTICES IN ESTONIA

Research Objectives

The main objective of this study is to gain the overall picture of how the current economic crisis has impacted four areas of Human Resource Management: 1) recruiting and selection, 2) reward systems, 3) training and development, and 4) performance appraisal in Estonia. The case of Estonia is a unique one to study from HR perspective because after a several years of clearly noteworthy economic growth period the country faces now the challenges of a severe economic crisis.

Research Methodology

The research by nature is a qualitative study. The empirical portion of this research was formed around semi-structured interviews. The interviewees are four HR Managers and a General Manager of five different companies operating in Estonia, with four of them being of Finnish domicile parent companies. The interview themes were focused on defining the relationship between Estonian HRM and the economic crisis from which conclusion of how the crisis has influenced HRM practices are drawn.

Findings

Previous studies have shown evidence that economic instability affects both company performance and its HRM activities. The findings of the study show that the current economic crisis has had significant impact on HRM and its practices. After almost a decade of robust economic growth in Estonia, the changes that the crisis has fostered since 2008 have been dramatic. The study indicates that recruiting and selection, and reward systems have been influenced by the crisis the most. A total reversal from the situation only few years back. Training and development has suffered significantly as well, although companies have maintained the basic level on training programs and concentrated on developing internal trainings rather than paying for external training programs. Other than cancelling salary negotiations, the function of performance appraisal practice has faced the lowest degree of change.

Key Words

Human resource management practices, recruitment, training, performance appraisal, reward systems, emerging market, economic crisis, Estonia.

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NYKYISEN TALOUSKRIISIN VAIKUTUKSET HR-KÄYTÄNTÖIHIN VIROSSA

Tutkimuksen tavoitteet

Tutkimuksen päätavoite oli arvioida miten nykyinen talouskriisi on vaikuttanut HR-käytäntöihin neljällä eri alueella: 1) rekrytoinnissa, 2) palkitsemisessa, 3) koulutus- ja kehittämisohjelmissa ja 4) kehityskeskusteluissa. Viro oli tutkimuskohteena ainutlaatuinen: maalla on nuori talous, joka on kasvanut merkittävästi useiden vuosien ajan aina nykyiseen talouskriisiin asti.

Menetelmät ja aineistot

Gradun menetelmänä toimi kvalitatiivinen tutkimus. Aineisto kerättiin puolistrukturoiduista haastatteluista. Haastateltavina oli neljä henkilöstöjohtajaa ja yksi maajohtaja yhteensä viidestä eri yrityksestä, jotka toimivat Virossa. Haastatteluiden teemat keskittyivät määrittelemään HRM:n ja talouskriisin välistä suhdetta. Näiden aineistojen pohjalta esitettiin tutkimuksen lopputulokset, eli miten talouskriisi on vaikuttanut Viron HRM-käytäntöihin.

Tutkimuksen tulokset

Aikaisemmat tutkimukset osoittavat, että talouden epävakaisuus vaikuttaa yrityksen menestykseen ja sitä kautta myös henkilöstöhallintoon. Tutkimuksen tulokset näyttävät, että talouskriisillä on ollut merkittävä vaikutus haastateltavien yritysten HRM:ään. Viron melkein vuosikymmenen ajan jatkunut talouskasvu koki dramaattisen muutoksen vain vuoden sisällä alkaen vuodesta 2008. Kovimman muutoksen koki rekrytointi- ja palkitsemisjärjestelmä, joka oli täysin eri tilanteessa ennen kriisin puhkeamista. Koulutus- ja kehittämiskäytäntö kärsi myös tuntuvasti, vaikka peruskoulutusohjelmat olivat edelleen käytössä. Yritykset säästivät varoja myös kehittämällä sisäisiä koulutus- ja kehittämisohjelmia ulkoisten koulutusohjelmien käyttämisen sijaan. Kehityskeskustelukäytäntö pysyi muuten samana, vain palkkaneuvottelut jäädytettiin vuoden 2010 osalta.

Avainsanat

Henkilöstöhallinnon käytännöt, rekrytointi, motivointi, koulutus, kehittämis keskustelut, palkitsemisjärjestelmä, talouskriisi, Viro, kasvavat taloudet.

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1. INTRODUCTION

The global economic crisis that showed its first indication in late 2007 has dramatically affected the economic stability and overall socio-economical environment of Estonia. A country which had posted such impressive economic growth figures that it was classified as a high income economy by the World Bank, has been dramatically influenced by the current economic crisis. Since the crisis, Estonia has suffered from severe unemployment, which was at an all-time record high in the first quarter of 2010 at 19.8 percent, the Gross Domestic Product (GDP) of the nation fell by 14.1 percent in 2009, and falling import and export numbers of 10.1 and 4 percent, respectively. (Statistics Estonia, 2009, 2010). All serve as striking data points on the severity of the situation.

In order to avoid financial losses and maintain business operations, many companies were forced to carefully monitor and cut their expenses to their minimum. As a result, many business functions, not least of them Human Resource Management (HRM) are facing new challenges on how they prioritize the day-to-day practices in the midst of the uncertainty created by this economic environment.

Past academic literature clearly acknowledges the negative effects of crises on company performance, as well as on Human Resource Management (HRM). Research topics that have covered this domain vary from: 1) examining the relationship between economic instability and company performance (Lähteenmäki et al. 1998); 2) organizations' responses to financial crisis (Aycaan and Kabasakal, 2006); 3) crisis management (Pearson and Mitroff, 1993) to; 4) analyzing survival of emerging markets during financial crisis (Mudd et al. 2002). In tougher times and periods of increase economic uncertainty, organizations and companies have a tendency to cut their operative resources. This has a significant influence on human capital, company's operations, and not least of them HRM. Many companies might not realize that all of these factors are closely connected. Instead, the actions that many companies undertake during the crises have been largely ignored or improperly handled (Appelbaum et al. 1997). As an example, downsizing measures have shown largely to influence the entire work community. Employees that 'survive' the downsizings are usually left to cope with increased workloads and job responsibilities. This in turn affects employee work attitudes and behaviors, such as loyalty to the company, plus trust and satisfaction (Maki et al. 2005). The

reason why companies should pay more attention to this aspect is the fact that an impaired work environment lowers employee productivity, and this negatively influences the company's long run performance.

The importance of HRM during a crisis stems from its positive effects on both employee well being (Browne, 2000; Schultz et al. 1995), and company performance (Delery and Doty, 1996; Delaney and Huselid, 1996; Pfeffer, 1994, 1998). One of the major paradigms that stand out in academic HR is that Human Resources are viewed as an asset, rather than merely a cost that is to be minimized. Following the words of Wright et al. (1994: 315): *“High levels of human capital lead to greater capabilities to develop more efficient means of accomplishing task requirements, and greater capability to respond to environmental changes, leading to a sustained competitive advantage”*. Hence, carefully managed, HRM practices are increasingly acknowledged among researchers as a key competitive advantage at both local and global levels (e.g. Fey et al. 2004, 2000; Dowling et al. 1999; Edwards et al. 1996). The uniqueness of HR practices lies in their capability to be bundled together. Individually HR practices are easily observable and even imitable, however entire HRM system cannot be imitated in any trivial manner (Akhtar et al. 2008; Barney and Wright, 1998). Empirically, a number of studies have identified either bundles of HR practices or the whole system of HRM practices to have an impact on organizational profits and performance (e.g. Boselie et al. 2005; Wall and Wood, 2005; Fey and Björkman, 2001; Becker and Huselid, 1998; Delaney and Huselid, 1996; Huselid, 1995).

The chosen HR practices for this study are considered to be parts of a high performance work systems (Becker and Huselid, 1998). Although there is no undisputed list of ‘high performance’ HRM practices (Guest, 1997; Becker and Gerhart, 1996), the practices that were chosen to be included in this study are found to contribute to organizations performance (Huselid, 1995). This range of practices: 1) recruitment and selection, 2) training and development, 3) rewarding systems, and 4) performance appraisal are also believed to be relatively comprehensive and similar to those examined in previous studies on international HRM (e.g. Ervasti and Suutari 2004; Hannon et al. 1995; Pfeffer 1994, 1998; Rosenzweig and Nohria 1994).

What makes this study novel is the fact that in existing management literature, the implications of economic crises for HRM are typically limited to suggestions for crisis

training and development, as well as effective internal communication. How economic crises impacts HRM practices per se, has not been received much attention by the academic community. Unfortunately the scarcity of academic literature available on this subject has had a limiting impact on the robustness of a theoretical framework upon which this research is based on. Therefore, the purpose of this study is to evaluate whether the current economic crisis has had an impact on specific set of HRM practices, such as, training and development, performance appraisal, recruitment and selection, and reward systems in Estonia.

1.1. The Objectives and Research Questions of the Study

The first research objective of this study is to examine the ways in which the current economic crisis has impacted on various HR practices within Estonian companies. The specific HR practices examined include; recruiting and selection; reward systems; training and development; and performance appraisal. In order to reach this objective, the study will first of all analyze the influence the current economic crisis has had on Estonian business environment, and then focus on the impact within the realm of HR practices. As a second objective, it attempts to comprehend how drastically Estonian HR had changed after the current economic crisis took place through discussing the position HR had prior to the crisis. The objectives of this study are reached by conducting an empirical research and analyzing literature that have previously addressed these topics or issues bounding this subject.

The first part of the literature review examines existing literature concerning the influences that the current economic crisis has had on the economic environment and Human Resource Management. Topics such as the importance of managing HR during times of crisis and taking care of employees during periods of economic turmoil are covered. The second section of the literature review consists of a brief discussion on the evolution of Estonian HRM. This discussion serves to provide a clearer picture on the changes that Estonian HRM had experienced during the post-Soviet transition period and how this transformation has influenced its practices. It will also give a clear picture of how HR practices in Estonia have changed prior to, and after the current economic crisis.

The empirical objective of this study is to examine the impact of the 2008-to-present economic crisis has had on four HRM practices chosen for this study through semi-structured interviews with HR professionals and one Manager Director in five different companies domiciled in Estonia. The results acquired from the interviews will help in answering the

main research question of this study: In what way has the current economic crisis has impacted Estonian HRM practices, if at all.

The study attempts to answer the following question:

1.2. The Primary Research Question of the Study

- How are HRM practices in Estonia influenced by the current economic crisis?

Sub-question

- In what ways does the current economic crisis impact Estonian HRM practices? HRM practices being; as training and development, recruitment and selection, reward systems, and performance appraisal?

1.3. Structure of the study

In the first section is a review of existing literature regarding past crises and their implications on HR practices. In section 2, a discussion is presented as to how the HR function positions itself during the crisis, and more importantly, the role of human resources in organizations and companies during times of economic downturn. Impacts of the current economic crisis on company performance and how activity of companies in those situations influences HR will also be discussed. The importance of HRM practices, during the current crisis has been examined from the viewpoint of both company performance, as well as human capital. Section 3 reviews literature concerning Estonian HR in detail and explains the history and evolution of Estonian HRM starting from the transition period when country regained its independency. Also the current Estonian business environment will be reviewed in order to give an overview of the changes occurred to Estonian economy, including labor market and investment climate. Section 4 covers the research methods used, explaining how the data was collected and how the reliability and validity of the study are safeguarded. Section 5 includes a presentation of the interview results and an analysis of the data. Section 6 summarizes the study, and mentions suggestions for future research.

2. HUMAN RESROUCE MANAGEMENT AND CRISIS

2.1. Definition of Crisis

From a broad range of possible definitions of crisis, Hermann's (1972) definition has been widely accepted by scholars. Hermann posits that a crisis is a situation that includes all of these three conditions: (a) *a surprise to decision makers*, (b) *a threat to high-priority goals*, and (c) *a restricted amount of time available for response*." Reilly (2008), and Pearson and Clair (1998) add that a crisis is typically accelerated by people, organizational structures, technology, or natural disasters.

2.2. Organizations Actions during a Crisis

Previously economic crises have primarily been associated with less developed countries. However, during the past 20 years, or the era of "economic opening" as Palma (1998) describes it; crises have grown larger and more disruptive in terms of scale, as well as, in terms of the overall area affected.

Countries that followed policies of reducing trade barriers and open their economies have mostly experienced significant capital inflows. Nonetheless, these policies have simultaneously meant being more extensively exposed towards baring the risk of losing financial inflows from foreign investors, might a financial crisis occur (Mudd et al. 2002). In order to minimize the exposure risk to the harmful effects of an economic crisis, companies deal with cost structure, revenue structure, and business risk profile. These strategies are closely related to human resources, often requiring corresponding responses in HR policies (Mudd et al. 2002).

When facing economic downturn, many companies and organizations may temporarily decrease production, reduce costs which in turn lead to layoffs, salary cuts, and reducing fringe benefits, and potentially even close down their business (Beaverstock and Doel, 2001). All in all, no matter what type of crisis is at issue, be it naturally occurring or human inducted, it requires the attention of the whole company: from the bottom to the top (Reilly, 2008). After all, a crisis' far-reaching impacts can lead to substantial damage to organizations, the individuals, and environment (Hutchins, 2008).

How companies deal with economic crisis depends on their social contract. Aycan and Kabasakal (2006), take a closer look at social contracts to investigate its role in employee's justice perceptions and reactions to such practices. Their most significant finding is that organizations respond to economic crisis depending on their social contract type, which is identified as being either transactional or relational.

Relational Contract - Relational type of social contract contains strong interdependence between employers and employees (Rousseau and Wade-Benzoni, 1994), and spends considerable resources on their development (e.g. training skill improvement, career development). However, performance standards and requirements are usually weakly defined for this contract type.

Transactional Contract - Performance standards for transactional contracts, on the contrary, are well specified and they focus more on short term and immediate compensation. Recruiting agencies are known to provide a company, through means of having solely transactional contracts with employees (Rousseau and Wade-Benzoni, 1994).

Two of these contracts contain essential employment terms and combination of them can be called a balanced contract. When organization is doing well and is stable, it usually pursues long-term relations with its employees, investing in their skill development and career growth. However, when organization is experiencing difficulties, it changes its strategy to be flexible to environmental changes and thus short-term commitment with employees is emphasized (Rousseau and Wade-Benzoni, 1994). Aycan and Kabasakal (2006) studied these social contracts in the context of a crisis situation. They found that organizations that do not comply with social contracts during the crisis, take direct actions to decrease human capital, effecting their psychological well-being and performance level.

Institutional theory posits another hypothesis on how organizations respond to crisis situations in practice, especially with regards to downsizing activities. McKinley et al. (1995) suggest, that in times of an economic crisis, organizations do not just downsize for cost efficiency purposes, but are instead being driven by three social forces: 1) Constraining, 2) Cloning, and 3) Learning factors. The Constraining mechanism pressurizes an organization to follow the socio-institutional rules that define legitimate structures and management activities. The Cloning effect is caused by a perceived need to benchmark. The organization uses this in attempt to imitate the practices of the most successful organization of their respective market.

The Learning factor generally influences organizations through transferability of internalized knowledge to professionals and graduates, who have attended courses that were taught in universities or other professional institutions. Each of these forces has had their own role in bringing organizations to the decision to downsize (Scott, 1995).

Downsizing caused by the Constraining factor however, may be shifted from once viewed negatively towards more accepted and positive interpretation. When an organization is experiencing financial challenges, downsizing under this factor is expected more as a rule than as an exception both within and outside of the organization in question. Thus, during the crisis many of the forces were adopted not because of economic effectiveness, but to align with institutional forces.

2.3. The Role of Human Resources during a Crisis

Organizations and companies apply crisis management in order to either systematically prevent crises or efficiently manage ones that take place (Pearson and Clair, 1998). By efficient crisis management Pearson and Clair (1998) mean minimizing internal and external losses, sustaining or resuming operations, and most of all learning from the past experiences. During a crisis period, the role of an HR Manager gains more importance within the organization as they align together with the company's altered key objectives that stem from crisis management planning and implementation plans.

Many companies realize the importance of human capital only after strategies for other operational functions and systems have been planned and implemented (Lockwood, 2005). However, successful crisis management during and after a crisis cannot be realized without involving human resource management. This does not mean that the role of HR needs to be central in crisis management, only that it should be actively included in company's disaster response and recovery planning. After all, HR Managers are in a central position when it comes to managing employee relations, communications, developing human resource policies and practices, offering employee training and development, career planning, getting people back to work, *et cetera*. In other words, HR Managers are strongly involved with every employee in organization, and therefore their role and activities should be considered valuable in the areas of crisis management planning and execution. During the post-crisis period, the HR role has been important in helping the company and its employees with getting back on track (Premeaux and Beaux, 2007).

2.4. Being prepared for a crisis

Another important aspect in navigating through a period of economic downturn is the degree of crisis-management preparation. Mitroff and Alpaslan (2003) state that companies, who are prepared for an economic downturn, end up in financially stronger position, have better reputations, and stay in business longer than the companies who do not prepare themselves.

There are many benefits in being prepared for a crisis. First of all, it reduces the number of obstacles the company has to manage through. Secondly, as already mentioned above, crisis-prepared companies stay in business longer, and it also impacts the reputation of the company. To summarize, crisis prepared companies go through fewer crisis, recover faster, maintain their image in better stead, and are more competitive than their less prepared, more crisis prone counterparts.

Being prepared means also being alert for the possible growth opportunities that can emerge from the crisis. Pudlowski (2009) notes that this is what turns companies into long-term market leaders. This is also supported by Smith and Abdullah's, (2004) study about impact of economic crisis on HRM in Malaysia; the crisis challenged HR Managers to transform their focus away from survival and towards a search for new opportunities. In order to increase employees' productivity levels, HR Managers emphasized rewarding high performances and implementing effective training and development programs. They were forced to innovate new ways to overcome uncertainties and challenges, and it also strengthened the position of HRM in the company as a central strategic function.

Preparing for a crisis involves efforts to build an efficient crisis response strategy, plans to minimize technological failures, and developing internal and external communication system (Barton, 2001). Communication is an extremely important aspect in crisis management, which has unfortunately often been taken for granted (Gurchiek, 2006). The organization should maintain a constant stream of communication through all layers of the organization, not only stakeholders and managers, but also employees (Hale et al. 2005). According to Duck's (1993) research on managing change: 'Communication must be a priority for every manager at every level of the company'.

2.5. Impacts of Downsizing

Academic studies concerning crisis impact on HR and its practices have been relatively limited, especially in the context of Western countries. Majority of the studies are concentrated around Asian countries after Asian economic crises that took place in the late nineties (Ding, 2004; Rowley and Bae, 2004; Rowley and Warner, 2004; Smith and Abdullah, 2004; Chiu, 2003; Kamoche, 2003; Zhu, 2003). It was clear that the crisis had impacted countries' labor market and HRM activities. Increasing unemployment was a widespread threat for many Asian countries, but also reduction and freezing of salaries, benefits, training and development programs were common. The labor market changed dramatically when "flexibility" of new non-permanent staff was favored over permanent ones. Even the individuals with stronger skills sets, such as English language competence, foreign education degrees and competent work experience did not offer value. Employees from the bottom to the top, along with labor union had no choice but to adjust to the more competitive business environment (Smith and Abdullah, 2004).

Companies experiencing low performance, financial losses or cash flow difficulties often implement a downsizing procedure. At best downsizing can be viewed as a means to improve organizational performance by reducing human capital. However, many studies showing that downsizing is not always the best way to gain stronger position, and that it has economic, organizational, and human consequences, it is still largely and widely practiced (Gandolfi, 2007; Macky, 2004; Sahdev, 2003; Zyglidopoulos, 2003).

In fact, Pudlowski (2009) argues that the common phenomenon of saving costs by first reducing staff within crisis-stricken companies can be avoided. Instead of concentrating on implementing strategies that affect the headcount, companies should first examine the possibilities of the usage of transparent cost-saving possibilities. By this he means utilizing the talent and skill inside an organization, and throughout different departments can provide new insights that may not have been considered otherwise.

Transparent cost saving in a need that maintains the benefits of employees rather than reducing them, can bring exactly the competitive advantage company needs during economic downturn (Pudlowski, 2009). This is also supported by the study of Aycan and Kabasakal (2001), which reveals that social contracts are extremely important for an organization to take into consideration when managing a business through a in crisis period.

Even during downsizing and cost-cuttings from benefits and salary, employees commit stronger and perform better if they feel they can trust their organization. Thus, keeping employees valued, even during the cost-cuttings, may well maintain the talent within the organization so it can find its way through the crisis.

Unfortunately, not many companies see transparent cost saving to be the solution in solving its financial issues. In addition many fail executing downsizings with proper manner. According to American Management Association (AMA) report, more than 70 percent of interviewed companies undertook downsizing measures without any related HR plans, policies, or programs involved. In addition 50 percent of the surveyed companies failed to offer any reasonable support for survivors in order to reduce the negative effects of the downsizings as much as possible (Amundson et al. 2004; Beylerian and Kleiner, 2003). And because of the exact fact that the survivors of the downsizings are left with a work place, they are commonly left unnoticed (Appelbaum et al. 1997). This in turn can cause a great deal of emotional suffering among survivors (Amundson et al. 2004). The impact of downsizing or as (Litter et al. 1997) called them the “aftereffects” of downsizing cause a great deal of distress and even resentment among survivors. The survivors of downsizing are left to work with heavier workloads and wider responsibilities. Instead of taking care of their own areas of tasks, they also have to cover for the ones who were laid off from the organization.

In these situations survivors may experience enormous stress, which can lead to downsizing-related illness called the survivor syndrome (Ganfolfi, 2006). The survivor syndrome and other downsizing-related illnesses do affect on productivity, work attitude, general behavior such as trust, commitment, performance level, and satisfaction (Kumar and Pranjali, 2009; Maki et al. 2005). Understanding the emotional and behavior effects that downsizing may impose on survivors can guide HR Managers to develop adequate practices and programs to improve the downsizing process for employees, survivors and their organizations.

As Cameron (1994) concluded after his four years of study of downsizing that the most critical factor for downsizing success was effective management of HR systems. Cameron found that the following components of HR systems and factors lead to a successful downsizing: employee involvement, strong teamwork, communication and sharing of information, reward systems, performance appraisal, training, and downsizing in a trustworthy manner

2.6. Summary

The increasing globalization of markets appears to have facilitated the rapid spreading of the current economic crisis to a larger and heavier extent. Multinational companies have to take crisis risks into consideration not only on the local basis, but also internationally. Due to the growing competitiveness of their markets, measures to overcome crisis have become tougher as well.

Companies experiencing financial instability are prone to make quick saving decisions without closer considerations on their longer-term impact upon their performance. Downsizing human capital might save money in the short term. However, it may turn against company's competitive advantage, as it will lose valuable skill and knowledge that are often required to overcome future crisis environments. Survivors of the downsizing are also negatively impacted by these saving actions. Not only are their salaries and benefits usually reduced during a crisis, they are also left working with heavier workloads and responsibility. This may cause increased level of stress, and survivor syndrome, in which influences on their performance and commitment to the company are negatively impacted.

All in all, the role of the HRM has been emphasized during a crisis. Crisis management has a central role to navigate human capital through a crisis along with the key management of the company. Communication is one of the most important factors of crisis management, not only internally, but also externally. Employees value being listened to, and informed about changes occurring inside the company. While external communication takes care of the image of the company. Efficient communication also minimizes negative impact of downsizing.

Preparedness for a crisis is another important factor that influences how successfully a company will overcome the downturn. First of all, being prepared for a crisis prevents its larger impacts to a company. If a company has implemented programs and measures to overcome crisis before it takes over, it won't be as "paralyzed" by it. This naturally increases its competitiveness in a market, and minimizes substantial costs savings from human capital.

3. HUMAN RESOURCE MANAGEMENT IN ESTONIA

3.1. Estonian Business Environment

Since regaining independence in 1991, Estonia has quickly managed to establish a modern market economy. In the early years of independency Estonia was committed to seek closer economic “companionship” with the West. Extensive pro-western economic reforms and joining European Union in May 2004 shifted Estonia closer to Western nations and their economies. For Estonia, the period of “westernization” meant a significant increase in living standards, as joining the European Union required committing to develop macroeconomic policies, regional integration, and many legal and structural reforms. For almost a decade (2000-2007), the Estonian economy experienced one of the highest growth rates among all global emerging market economies, averaging over an extraordinary 10 percent of growth per annum. With its thriving information technology sector, large inflows of foreign direct investments (FDIs), and strong trade with the other small OECD nations, a country with a population of 1.3 million people (2009) succeeded in building one of the most open and competitive economies in the new world (OECD, 2009).

However, currently Estonia faces its most severe recession since the early 1990s. As in the rest of the world, the first signs of Estonian economy downturn started to show in 2007 and were driven by a credit-driven domestic boom. Year-on-year growing domestic demand came to an abrupt stop with tightening loan standards, and housing boom that shuttered consumer confidence. Naturally these factors had a severe impact on the Estonian labor market, as unemployment soared in 2009, devastating the job growth figures of the past years.

Statistics show that unemployment in Estonia surged to 19.8 percent in the first quarter of 2010, which equates to a nearly 130,000 jobs being lost in the previous two years (Estonia Statistics, 2010). In addition, wage growth slowed sharply by the end of 2008, since poor economic results limited the amount of bonuses on offer. The rapid wage growth of recent years has been an additional factor behind the current strong reduction of labor costs resulting in many companies reducing not only bonuses, but also basic wage levels.

Estonia’s outlook depends mostly on the strength of the global recovery and confidence in its own economic policies. Real GDP is projected to begin a faint recovery in 2010 with exports expected to start growing again, and consumer confidence is predicted to resume after the

labor market stabilizes. Slowly accelerating export growth and investments should give an additional boost to the recovery by 2011, when real GDP growth is hoped to reach 3.9 percent (Estonia country monitor, 2010). However, even if these potentially optimistic projections do hold, they are still a long way from the double-digit growth rates Estonia has become accustomed to.

3.1.1. Foreign Direct Investments

The topic of foreign direct investments is crucial when talking about the Estonian economy. FDIs have played a central role in shaping Estonian economy to its internationally competitive scale. In addition, foreign investing companies significantly influenced Estonian HRM field.

Estonia's beneficial geographical location between East and West, liberalization of price, privatization, effective and modern legislation and a stable currency has attracted one of the highest levels of foreign direct investment per capita compared with other transition economies. Many foreign companies have found Estonia to be a highly attractive location. Partly or wholly owned foreign companies account as much as one-third of Estonian GDP and over fifty percent of the country's total export.

During the early years of the 21st century, foreign direct investments had been flowing into Estonia at a very rapid pace. In 2000 the amount of FDI into Estonia was estimated EUR 2.65 billion and by the end of June 2008, the cumulative stock of foreign direct investment in Estonia amounted to EUR 11.6 billion. The Nordic countries are the biggest source of foreign direct investment in Estonia. Sweden is at the top of the list of investing countries holding 39 percent of the total amount, followed by Finland with 23.9 percent and the Netherlands with 7.4 percent (Bank of Estonia, 2009).

Estonia's favorable investment climate has weakened significantly with the downturn of the economy, and it is currently experiencing a significant fall in foreign direct investments. FDIs into Estonia fell to EUR 978 million in 2009, down from 1.29 billion in 2007. And it is expected to crumble further in tandem with weakening of the economic environment and tightening global credit environment. Along with rising global risk averseness, the level of investment into Estonia suffers as capital inflows have slow down. This in turn will

unfortunately affect the productivity level and output expansion of Estonian businesses (Emerging Europe Monitor: Central Europe and Baltic States, 2009).

However, the adoption of the euro in the beginning of 2011 may improve the credibility and stability of the Estonian economy. The change of the currency is expected to enhance economic growth potential in two ways; it will support and revive the investment activity and boost economy and consumer confidence through dropping loan margins. The inflow of foreign direct investment is predicted to set up again in 2011 (Bank of Estonia, 2009).

3.1.2. Understanding the Estonian labor market

The global economic crisis has forced many countries to make adjustments to their labor markets that have had severe consequences from the depressed economic environment. This usually means rising numbers of unemployment and falling wage levels. The kinds of evident crisis-effected changes in labor market emerged in Estonia in 2009.

Labor force demand was suffering from radical decline of output along with significant expenditure cuts. In order to reduce expenditures and save cash, many companies have implemented more flexible forms of work, such as part-time employment. The most extensive changes have taken place in the construction and manufacturing industry, where in the second quarter of 2009 year-on-year employment was down by as much as 36 percent and 21.3 percent, respectively.

In 2010 the unemployment rate has continued to increase rapidly. According to Statistics of Estonia (2010) it rose from 15.5 percent in the end of the year 2009 to 19.8 percent in the first quarter of 2010. A year back, in the first quarter of 2009 the rate of unemployment was 11.4 percent. Out of approximately 660,000 Estonian labor force, only 554,000 persons were employed during the first quarter of 2010, which is the smallest number of people during after the restoration of independence in Estonia began.

Along with growing unemployment numbers, the crisis has also impacted labor by decreasing salary levels. The average monthly wages started to decline somewhat later than employment and in 2009 declined by 6–8 percent. Wage growth slowed sharply at the end of 2008, since poor economic results constrained bonuses. According to the OECD (2009) the estimated decrease of salary level in 2009 was five percent.

Although the unemployment was record high in the beginning of 2010, the possibilities of finding a job have still improved from 2009. According to the forecast, if external demand resumes, the number of the employed may rise by 10–15 thousand by the end of 2011. Downward demographic trends will also affect labor supply in the near future since more people will retire than enter the labor market. Many hope that migration in the next few years may also affect employment rate positively. However, if the economic growth of Estonian main trading and foreign investment partner's stabilizes once again, it is possible that migration to these countries will increase as well, but this is all uncertain. Sources of the previous section: Statistics Estonia, (2009, 2010), Bank of Estonia (2009).

3.2. Characteristics of Estonian Human Resource Management

According to Tepp (2007), HR as a professional service in the present sense was introduced in Estonia in the beginning of 1990s. The evolution of Estonian HR from personnel administration to human resources was, without a doubt, triggered by Estonian independence. The rapid establishment and development of economic and legal institutional reforms attracted inflows of FDI into the country. Generally speaking, foreign investors can be regarded as important change agents in transferring Estonia from a Command to a Market economy (Heliste et al. 2007). New reforms also functioned as a means for driving organizational change in the development of new corporate culture (Taylor and Walley, 2002). Still, change did not satisfied everyone, some wanted to hang on to comfort of the Soviet past job security, guaranteed pay and highly structure jobs, which were the norms that centralized economy offered (Kiriazov et al. 2000). Not all realized that the moving forward through this transition period would bring along so many new opportunities in the development of technology, productivity, and an international scale competitiveness, which all strengthened standard of living in a society.

During transition period foreign investors not only served as an engine in building and globalizing the Estonian economic environment, they also brought along their own business practices and models, including Western HRM (Kiriazov et al. 2000). HR practices, such as performance management and compensation systems, recruiting and selection models first appeared in Estonia in foreign owned subsidiaries. Along the transition period, HRM was also strengthened by incorporating strategies and policies into operational HR decision making (Garavan et al. 1998).

Selection

Rapid economic development, was driven by the robust internationalization of local firms and international competition in general, and led to a new kind of labor market system. During Estonia's economic reform, many companies found themselves in an immediate need to match employee skill and ability with increased qualification requirements. As a general rule, the demand for highly qualified specialists in economically developed and developing countries is higher than the labor market is able to provide. In Estonia, there was a clear gap between the demand and supply of specialists (Vanhala and Tuomi, 2006). One of the main reasons for the qualified labor shortage according to Heliste et al. (2007) was lack of professional training system in Estonia, which did not meet most companies' actual needs.

Recruiting

In order to find skilled employees and to retain the existing ones, companies were forced to compete with one another by offering higher salaries and improving working conditions. Year-on-year increases in wages of as much as over 25 percent were considered almost a rule, rather than exception (Woolfson et al. 2008). At the same time, Estonian young companies were facing strong international competition, which forced them to limit their resources and investment in recruitment, training personnel and developing new type of work organizations (Roderick, 2006). Companies with sufficient capital had a greater competitive advantage in fighting for skilled labor, due to being able to offer higher salaries and bonuses. Challenges in retaining employees were also experienced due to a willingness to change work place in the chase for higher salary offerings (Heliste et al. 2007). Different incentives, such as, additional training programs and language courses were provided by some companies, and in fact, English language skills became more evident during the boom years of the Estonian economy.

Motivation

Despite the fact that monetary incentives were a significant factor in employee retention, it was not the only motivation factor. Softer values started to play an increasingly important role in motivating the work force. Values such as stability in work place, a positive work atmosphere, satisfying work activities, and tasks showed more popularity especially among the highly educated population in Estonia (Heliste et al. 2007). Also different fringe benefits, such as, supporting employee sport activities and health care, organizing mutual events,

feedback, lunch compensations, *et cetera* have been gaining a hold among Estonian companies and organizations.

Performance Appraisal

There has also been a growing importance in softer values as seen also from development of such HR practices as performance appraisal and training and development. Performance appraisal was more or less transferred directly from the foreign parent company to Estonian subsidiary. Some examples are regular discussions with employees; evaluation of their work tasks and general satisfaction level were regarded as an important part of keeping track of employee development. Employee performance is generally evaluated using different measurement tools, which are in turn tied to company's rewarding systems (Ervasti and Suutari, 2004).

Training

Training is used as another motivation and retention tool for employees. It is also considered to be an important means to educate and develop employees' skills so that they match company's needs. Due to the transition towards the West economies, there was a need to find the right employees that had both the skills and abilities that matched the increased qualification requirements. Because of this, organizations spent considerable amount of money not only on work training (Vanhala, et al. 2006), but also attitudinal training (Holden, 1997). With the growing internationalization of Estonian companies and FDIs, the need of foreign language skills, especially English was increasing. An awareness among companies existed that in order to be internationally competitive and attractive to labor, local managers and employees needed international experience and language knowledge that would match the levels found in more advanced economies.

3.3. Summary

After gaining its independency in 1991, Estonia has actively pursued to reinforce its connections with West. By developing its infrastructure, legal codes, and institutional reforms, it managed to attract the interest of foreign investors. Not only have foreign investors contributed to the development of the Estonian economy and its competitiveness within Western countries, it has also played a significant role in improving the Estonian personnel

administration. The first signs of HRM development were seen in foreign owned subsidiaries; HR practices such as performance appraisal, training and development and recruiting were imported from the investments of foreign owned companies.

Estonian Human Resource prior to the current crisis focused mainly on recruiting and retaining employees through HR practices. During the economic growth period, Estonian labor market was flourishing. The economy was in demand for skilled labor with Western business mind set and know-how. Unfortunately, this young economy with a mere population of 1.3 million did not have the capacity to offer what was required for labor market. Companies were fighting for labor by offering different monetary and non-monetary (e.g. training and development practice) incentives not only to attract, but also to retain employees. Softer values were pursued through performance appraisal practice, which gained hold to Estonian HR first in foreign owned subsidiaries. Performance appraisal practice was seen as valuable practice to evaluate the development of employee skills and further career opportunities.

Estonians advantageous investment climate was weakened after the current economic crisis took hold in late 2007. Decreasing capital inflow negatively influenced not only on GDP, inflation and interest rates, but also labor market. Unemployment has been at a record high since 2008 and has continued to rapidly increase during the crisis. Along with growing unemployment, the crisis has also had a noteworthy impact on salary levels, which have been declining on average ever since the crisis began. The glory days of year-on-year salary increases have now been almost forgotten, along with the aggressive bonuses and other employment benefits companies were able to offer before the current economic crisis occurred.

Although the current situation of Estonian economy is far from favorable, the signs of recovery are slowly emerging. Foreign direct investment is hoped to have revived after Estonia adopts the euro as its new currency in January 2011. The currency is expected not only to improve investment activity, but also to boost up consumer confidence through lowering borrowing rates. This in turn is expected to positively impact employment, allowing labor market to stabilize. Additionally with a large percentage of people retiring in the future the overall demographic development is expected to improve conditions of the labor market.

4. METHOD OF RESEARCH

In this chapter the methodology used for this thesis is introduced. This chapter discusses the methods of data collection and data analysis that were used in order to answer to the main research question.

4.1. Research Method

Due to the relatively unexplored nature of the issues that serve as the premises of this thesis, the chosen research method is of qualitative nature. It was clear from the beginning that the questions of this study can be answered only with the use of qualitative research methods and that quantitative inquire was not an option for this study.

Maxwell (2005) describes qualitative research design being focused on “*Questions that get at processes rather than 'variance'. Process questions ask 'how' rather than 'whether or not', or 'how much'.*”. An interview situation also provides the possibility for participants to give additional, “unexpected” information about the topic discussed at hand than, for example, a survey response (Hirsjärvi et al. 2009). Basically what interview produces is a particular *representation* or *account* of an individual's views or opinions (Silverman, 2004).

The empirical part of this research was formed around semi-structured interviews, also called as theme interviews. Semi-structured interviews are typically formed in a way that more specific questions are formed through the course of interview. Before the interview, exact interview form or order has not been defined (Hirsjärvi et al. 2009). Instead of following, a prewritten question frame, semi-structured interviews are built around certain themes. This gives an interviewee the possibility to express his or her own interpretations and viewpoints of the discussed theme more extensively (Hirsjärvi and Hurme, 2008).

4.2. Data Collection and Analysis

Data Selection

The interviewees were chosen randomly from the list received from Central of Markets in Transition (CEMAT), which contained Finnish owned subsidiaries operating in Estonia. It was decided beforehand to concentrate on interviewing five HR professionals from different

companies. Industry areas of interviewed companies also differed in order to avoid centralizing research outcomes to specific industry. The number of interviewees was chosen, while taking time constraints and validity issues into consideration, in order to ensure a proper theoretically sampled dataset.

Interviewed companies were chosen by three criteria: 1) their subsidiary form to a Finnish company, 2) a lengthy period of activity in the Estonian market, and 3) field of industry. The first criterion helped to contact companies' HR representatives in Estonia, through first approaching their Finnish head quarters. All in all, four Finnish owned subsidiaries were chosen to participate in the research. From these subsidiaries, three HR professionals and one Manager Director were chosen by their Head Quarters to represent their views on HR issues in this current study. The fifth interviewee (HR professional) was from Estonian company, which was originally founded in Finland, but is no longer operating in the country. To summarize, four HR professionals, and a Manager Director are the interviewees of this study.

The interviews took place in the premises of the interviewees' offices in Tallinn, Estonia from 12th to 14th of January, 2010. The interviews lasted from one to two hours, and were tape-recorded with the permission of the interviewees. The tapes were transcribed and after that the written transcripts were used to analyze the results of the interviews.

Of the five interviewees, only one asked to be familiarized with the questions before hand. All except one of the interview were held in English, which was not interviewees' native language. For the HR professional who did not feel comfortable with performing the interview in English, it was held in Estonian. Other interviewees felt comfortable with their English language knowledge and thus a language barrier did not cause any constraints.

Interviews

The main objective for conducting interviews is to increase the knowledge of the current crisis environment interviewees experienced regarding to the HR challenges and problems. In addition, through carefully set themes and questions, interviewees were able to give their own interpretation and viewpoint on how the crisis has impacted their own HR practices.

The interviews were divided into four different theme sections containing altogether 25 questions (see Appendix 1 for complete list). In the first section the interviewees were asked

to describe their own position and career path in the firm and if they have had past work experience in non-Estonian companies. The second section was about the impact of the economic crisis on HRM and business in general. In most cases the interviewees already started to talk freely about the current economic crisis and how it has impacted their HRM, which are the main subjects in the second and third sections. The interviewees were asked to describe HRM practices in their firm (staffing, personnel development and training, rewarding systems, recruiting criteria and labor union relations) and how they have changed during the crisis. In most of the cases, general theme sections were enough to direct the interviewees to discuss the topic. However, specific questions were important to keep interviewees on track in a situation where discussions departed into altogether different directions than what were anticipated.

4.3. Reliability

Reliability means the extent to which the measurement procedure generates the same answers regardless of when and how it is carried out (Kirka and Miller, 1987). It refers to the degree, to which, the findings of a study are independent of accidental circumstances of their production. In other words, it deals with replicability – the question of whether or not some future researcher could repeat the research project and come up with the same results, interpretation and claims (Silverman 2006).

For the current study, different pre-assigned interview themes were in a central role in each interview, they were clearly defined and included all the relevant issues of the thesis topic. Due to the interviewees' HR background, they were familiar with the topics discussed. No additional themes occurred during the interviews.

The reliability of the study is still challenging to measure, as each individual experiences things differently, no matter how randomly interviewees are picked. Although interview themes were somewhat accurately repeating in each interview, in their own way they all represent the opinions and interpretations of an individual, and therefore cannot be completely generalized. Mäkelä (1998) suggests that although qualitative research is not repeatable, it cannot be concluded that there is a problem in reliability. Instead, it is argued that different measures are needed for qualitative analysis in order to judge its degree of successfulness.

Crossing language barriers

In questioning the reliability of the current study the language barrier has to be also considered. Piekkari and Welch (2006) studied whether foreign language use in qualitative interviewing is problematic. According to their study, foreign language can threaten the accuracy of responses in some ways. It may alter the structure of the interview frame, body language, conducting repeat interviews and seeking verification through additional means such as observation. But nevertheless, using foreign language in qualitative interviews should not be approached as overtly problematic. Crossing the language boundaries can also reveal new level of localized understanding and provide additional insights to the cultural world which would not have occurred otherwise.

As mentioned above, all the interviews, except one were conducted in English, which was not a native language of the interviewees. However, the interviewees were familiar with the language and did not express being uncomfortable during the interviews. If needed, questions were reframed and clarified before and during the interviews.

4.4. Validity

Validity is the extent to which the measurement gives the correct answers. It implies the degree to which the finding is correctly constructed (Kirk and Miller, 1987).

The reliability of this study is strengthened by the fact that interviews were tape-recorded and carefully transcribed. Final interpretations of the tapes were made after they were listened to numerous times. Interview questions were carefully set-up and if situation so required, re-evaluated and re-designed. One aspect that might influence reliability is that answers were based on one person's opinion and experience of the topic.

Interviewees were also familiarized with general theme topics before the interviews took place. Hence, interviewees had a chance to ask additional clarifications with regards to the questions and terminology before interviews took place. Although only one interviewee asked to be carefully familiarized with themes and possible interview questions, others were content with the general theme topics described to them in the before interviews took place

4.5. Limitations of the Study

The study is limited in two distinct ways. First, the theoretical part has limitations in its scope. It was apparent from the beginning of the study that the current economic crisis is still ongoing and therefore, there is only limited academic literature published concerning the effects of the current economic crisis on HRM and its practices. Hence in order to back up the assumptions and findings about the effects of the crisis on HRM practices, the present study relies on two information sources; literature regarding past economic crisis and its effects on HRM, and the data collected from five different semi-structured interviews with HR Managers and one General Manager.

Secondly, the number of the interviews was relatively low: only five companies, one person from each one was included in the study. Also, the interview findings were interpretations of these individuals, not the company itself. In order to get a more comprehensive picture about the impacts of the crisis on HRM and its practices in Estonia, more interviewees should have been included in the study. However, as it is common with master's theses, a certain time constraint is inherent, preventing the study for expanding into further depths or including more interviewees to the data sample. Yet, it can function as a preliminary exploration into this new topic.

5. EMPIRICAL FINDINGS

In this section, the results gained from the data collection will be presented and analyzed. The presentation of the results will be made according to themes ranging from general outcomes of crisis influence on HR to more specific description of how crisis has influenced HRM practices in the areas of recruitment and selection, training and development, reward systems, and performance appraisal. Through these themes, the research problem and questions of the study will be answered.

5.1. The Impact of the Crisis on Human Resources

All of the interviewees characterized the current situation of HRM in Estonia by comparing the situation against prior to the crisis. They explained having HR related problems previous to the crisis as well – only that the problems were almost the opposite ones from what they were experiencing during the current crisis.

“Few years ago we had a severe HR problem because everybody considered himself as construction specialist, times were different, and it was very difficult to find good employees to carry out the work. At the moment unemployment rate in Estonia is almost 20 percent, over 100 000 person have lost their job and companies have problems or even go bankrupted, this also means that it’s a bit easier to find a good specialist or educated person to carry out certain tasks”

- Managing Director, Construction

When only a couple of years ago companies suffered from severe labor shortage, today there is a wide labor pool of employees to choose from, but no resources to hire. Before the current economic crisis took place there was enough resource to invest in different HR practices and to develop HR-focused programs, today resources are limited. Human capital is reduced to a minimum and workloads are shared among those who have been lucky enough not to be laid off during a period of downsizing. Long period of year-to-year salary increases turned into salary reductions among all levels of employees and managers. HR departments found themselves in a situation where they were forced to reduce their number of employees by as much as 10 percent. All examined companies had taken downsizing measures to reduce cost

levels as a result of decreased revenues. Cutting working hours and sending employees to unpaid holidays were used as a means to save resources and to keep them employed.

“Last year we carried out the same physical amount of work at a 25 percent lower price, with 15 percent less personnel and this means that everyone had to work much harder than in good times and we had to lay off some persons. In good times we would have kept them. In addition to decreased price and personnel, the salaries are 10 percent less. During the off season time we send employees to kind of obligatory vacation with minimum salary, this is concerning only blue collar personnel”

- Managing Director, Construction

“We have reduced working hours temporarily, and we had to reduce personnel couple of times last year. This year we probably won’t do it or service level will suffer”

- HR Manager 4, Retail

Maintaining the same level of overall efficiency with lower costs was one of the main concerns of all companies surveyed. As employees were laid off, the amount of work did not diminish to the same extent. So employees were forced to work longer hours with less pay. According to the studies, the kind of work conditions may easily affect not only emotional distress for employees, but also have negative impact on the commitment to the company. This is something many companies may not realize, as downsizing not only affects the ones who are forced to leave the company, but also those who stay (Gandolfi, 2009; Gandolfi, 2006; Macky, 2004). According to Spreitzer and Mishra (2002), downsizing actions influence on survivors’ feeling of security and lessen their trust in organization, which in turn reduces their commitment level. All of the interviewed HR Managers expressed their concerns for mental and health issues employees might experience during the downsizings. They were worried about employee commitment to the companies’ once economic situation reverts. Only the interviewed General Manager felt that *“the fact that they are still working should be enough of the motivation”*.

“Although we have fewer employees, we have the same amount of work to do meaning we work more with less. That’s why it’s important to maintain healthy atmosphere among personnel. To find the balance in keeping the right amount of

employees and efficiently handle higher work load is a challenge. People are afraid more, they are tired more because they have to work more, they don't have savings now, they have apartment loans. People have more problems, and we have less time to concentrate on their well being, to motivate them. Employees' layoffs have been hard on the company, it influences on health as well, and people are more sensitive"

- HR Manager 3, Construction

"We have had to reduce personnel, so a selection has been made and I think that our staff now is (balanced). We have the persons who are more stable and motivation here is very important factor. People are now more aware of the situation, they appreciate employer more and during the selection (layoffs) it is considered that we want to keep them more motivated and more trained and more stable stuff with us if we have had to reduce employees".

- HR Manager 4, Retail

The current situation of HRM in Estonia has significantly changed since the crisis hit the market. The most noticeable changes are seen in labor market balance, which has shifted upside down only a few years. Before the economic crisis Estonian HR was indeed experiencing severe shortage in its overall work force, after the crisis the situation is the opposite. Worsening financial situation of the companies has caused not only high numbers of lay-offs, but concerns for the survivors of downsizing, who work longer hours, have more responsibilities, but get less paid. This concerns also the interviewed HR Managers, who are determined to take care of the employees' health and also commitment to the company.

5.2. Strategic Role of HRM

Companies' actions in a tight economic environment have no doubt influenced HRM in Estonia. In fact the whole HR function was described to have changed from being merely a company's support function to more strategic function of the business. Most of the interviewees came to realize that along with the challenges that the economic crisis brought, there were also opportunities for HR development.

"We have changed from the recruitment agency to a real HR function, more training and development and all the other functions, we can look at some

motivations schemes, analyze salary payment strategies and all those things HR function should actually do. Make sure that paper work is in the best possible shape, because in 2007 we just had to make sure that we have adequate amount of people serving customers. We have changed into more development and strategic role, we are able now to look better in the future. Most HR Managers in Estonia would say that now we have more opportunity and time to think about strategic things, the future, to analyze more. So this is the general trend in Estonia”

- HR Manager 2, Retail

“Our HR has been involved a lot with working hour’s optimization, analyzing number of sales, number of customers, staff... I think we have been quite proactive how to figure out how to work more efficiently”

- HR Manager 4, Retail

According to interviewees, the crisis has forced HR departments to renew their strategies. Before the crisis, the main tasks of HR departments were to ensure the recruitment process, salary payments, and managing training and motivation programs. However, the current economic crisis brought up new opportunities to develop HR towards a more active function of the company. Not only have they worked more closely with managers to find ways to reduce labor expenses, they were also forced to find new ways to develop cost efficient training and motivation programs. Forecasting was also one approach that has been taken under HR department more actively. Before crisis most of the interviewees had use forecasting somewhat actively, mainly to estimate numbers of employees required to hire based on the market situation. After the crisis, however, HR departments have put stronger emphasis on forecasting. By forecasting interviewees want to make sure they are aware of what is going on inside and outside the company, and thus be able to better prepare the business for differing potentials future scenarios.

5.3. Recruiting during the Crisis

The recruitment situation in Estonia has experienced a major change during the current economic crisis. Prior to the crisis, interviewees explained having a hard times finding any qualified labor. The Estonian boom years had created a favorable labor market position for employees. Individuals with specific sets of skills (e.g. English language, IT-knowledge) and good work experience were regarded as highly valued applicants. Strong labor shortage

forced companies to hire young students right from their school benches, without significant work experience. Wages were also growing on a year-to-year bases in order to keep up with salary increase trend labor market was experiencing. The labor situation in Estonia was beneficial for employees and if some other company offered a better salary or benefits, many took the opportunity and changed work places according to best offer.

“Five years ago all construction firms had a lot of work and it was very difficult to find skilled project managers. Trend was to hire students from schools to manage projects and it wasn’t seen as a good sign because students didn’t have the experience to do the work properly. It was all about asking more salary. Salary amounts in the market were sky rocking. If you had experience and references you could ask very high salary“

- HR Manager 3, Construction

“Couple of years ago the biggest problems were to find personnel who would be motivated, well trained and stable”

- HR Manager 4, Retail

This situation has rapidly changed following the current economic crisis. Severe downsizing measures in almost every sector of the industry forced people to accept work wherever they could find it in order to secure their livelihoods. The balance of power has shifted from employees to employers, who now find themselves in a favorable position to choose applicants from a wide labor pool and in better control of the salary level. However, having a larger pool of applicants did not change the fact that it was still not easy to find skilled professionals. According to some interviewees, the best employees stay employed and they do not jeopardize a secure work place during an economic downturn by considering changing work place.

At the same time, interviewed HR professionals also remarked that if someone had been laid off from other companies, the conclusion was made that this must have meant that the employee in question was not considered to be a valued enough resource for the previous employer. Signaling that he/she was not good enough for the company to keep. Currently unemployed people were considered as “left-over”, as one of the interviewed HR Manager (Law) expressed.

“Although there are more people applying, the real skilled ones are still hard to find. The pearls are usually hired already and we have problem to find specialists with specific skills. Head hunting is not easy now, because people don’t want to lose their stable work place now. They are afraid to change work places”

- HR Manager 3, Construction

As discussed earlier, the labor situation in Estonia had changed dramatically after the current economic crisis took hold on the economy. Although the situation was more favorable for employers regarding the recruitment, all of the interviewees still found it challenging. First of all, even though labor pool was much wider, companies were lacking proper resources to hire. Secondly, if they were hiring, finding the right person with the right skills and experience from hundreds of applicants was like searching a “needle in a haystack”. Especially when they were determined to not hire laid-off people from other companies. All in all, the labor pool had grown significantly bigger during the current economic contraction, but finding the right skilled and non-downsized applicants still proved to be more of a challenge than an easy opportunity that one might first guess.

5.4. Selection during the Crisis

High unemployment, thus bigger applicant pool, changed the way companies recruit and how they select from the large numbers of applicants. Selection of the candidates has been transformed from *“recruiting almost anybody who didn’t have criminal record and had adequate language skills”* (HR Manager 2) to *“having more qualified specialists from the market”* (HR Manager 1).

Firstly, according to the interviewees, the recruitment process itself had changed during the crisis. Outside recruitment companies are now less frequently used by a significant margin. Before the crisis, recruitment agencies and headhunters were commonly used in order to find employees with the required skills or expertise, especially for managerial posts. However, large applicant numbers made it possible for HR professionals to find what they are looking for themselves, and save money they paid recruitment agencies in the past. Another way to explain this phenomenon is that companies were hardly recruiting during the crisis. In the future, the situation might well turn around again.

“We did before (use recruitment company), not anymore. We have CV online, where we receive CVs from applicants, but not recruitment firm”

- HR Manager 1, Law

“Before recruiting was more about head hunting employees from other companies, now we recruit ourselves”

- HR Manager 3, Construction

“For some positions, like for risk manager which is specific and important role we have used (recruitment companies), but basically we do our own recruitment. We have always had some cooperation with them”

- HR Manager 4, Retail

Second of all, in order to find exactly what is needed, few of the interviewees discussed having started cooperation with universities to track “the best” students and even monetarily help them through their education after which they have an opportunity to be hired for the company. This would ensure getting exactly the kind of individual company is looking for. In addition, applicants were put through many interview phases and were required to take psychological, language skill and personality tests. This was mainly done to insure that hired person matched exactly the requirements of the company. In addition, such a strong involvement and investment into students probably positively influenced their commitment to the company.

“So we can select now the best ones, we have realized during the past year that it’s even more important to catch the fresh one and develop on our own purposes and not taking from the markets very expensive lawyers with all the strange habits and try to get him adjust to our culture or work procedures and climate so we have realized that good students are very...(valuable)”

- HR Manager 1, Law

In general, the selection process was described to be much more tighter than prior to the crisis. People get hired much less frequently, but if they are, the requirements are significantly higher when compared to the period prior to the crisis.

“I remember few years back that we couldn’t find any talented people from the market, we just had to take anybody who applied because work load was high and now what is good that you can have more qualified specialists from the market”.

- HR Manager 1, Law

“We are more selective. Criteria for candidates haven’t much changed. Before we weren’t able to recruit the person who fulfilled all our demands or expectation, we had to come down with our expectations. Now we can be more selective and recruit people according to our standards. Now we look at customer service skills, we look at language skills, we go one level higher. We always wanted to do that, but we couldn’t because there were no candidates. But now we can. The basic change is that we are more selective”

- HR Manager 2, Retail

Naturally, when supply and demand is this unbalanced, one of the sides has more favorable position, relatively speaking. Estonians high unemployment number (19.8 percent in the first quarter of 2010, Statistics Estonia) means that there are over 135,000 persons fighting for the contracting job market. Employers who seek to hire from this mass of unemployed people have no choice but to become increasingly selective, tighten their applicant criteria, and demand exactly what they need. According to all interviewed recruitment agencies were not used anymore. Before the current crisis agencies helped companies to track down the applicants they needed. Today, companies don’t have the same need. Despite the challenges of finding the right employee, the overall situation of labor pool was still better than prior to the crisis.

5.5. Reward Systems and Motivation during the Crisis

“How to motivate employees when they work more, earn less and are facing reduced bonuses and benefits?” was one of the questions asked from the interviewees. The situation in HR concerning benefits and bonuses in interviewed companies was that most of the benefits and/or bonuses offered prior to crisis were cut or reduced. Salary levels were also decreased by up to 10 percent, when workload simultaneously was increased. Companies were forced to cut any extra expenditure they could in order to survive. The responses of the interviewees varied from giving employees more feedback, emphasizing communication to doing nothing. One of the interviewees, Manager Director of the company, informed that *“employees should*

be happy to just have a job". Others tried to make employees feel secure, important, listened to, and concentrating on offering them more non-monetary motivation.

"We try to be there for the employees, for example this week sport week is offering healthy snacks, and next week we have campaign to say good things about your colleagues. We do little campaigns like that. We focus more on non-monetary motivation, making sure we get through these difficult times together, a lot of communicating about layoffs and pay roll. People will appreciate this kind of openness"

- HR Manager 2, Retail

"Giving them more feedback, emphasizing on performance appraisals, trying to talk to them more and listen to them. Trying to get managers communicating more with them"

- HR Manager 3, Construction

"If you have good colleagues and you can work in a good environment you realize it is hard time for everyone. I think this is a key factor"

- Managing Director, Construction

The range of benefits and different bonuses offered prior to the crisis was relatively wide. Benefits were cut down to save resources, and people were also willing to work with less, as long as they were able to keep their current work place. Everyone was aware of the market situation and keeping their jobs was the number one priority. The monetary incentives that were commonly used before crisis in order to attract good employees from other companies and to commit them are no longer seen as a necessary due to the unstable labor market.

"Every month we fill sales targets and the bonus is paid on target, people make less but we still have kept it. We temporarily took away sport benefit, at the same time we compensate it by starting our own sport club. Also we took away bonus for food department for employees who worked in cold, et cetera. We paid certain bonus for that, because positions were hard to fill, but now it's taken away. We don't do so much staff events and events are with limited budgets but we still have them"

- HR Manager 2, Retail

“When I came to work here we had motivation packages. Employees had salary, company car or compensation on their own car, work phone and lap top. We had different bonuses, achievement bonuses for project employees. In 2008 a fall we stopped all the other bonuses, than achievement bonuses for employees who do something good for the companies. We don’t compensate anymore for sport activities but our employees have possibility to play together in a rented hall. Bonus compensation has dropped 30 percent”

- HR Manager 3, Constructions

“Before we were able to carry out procedures better and currently no need to additional means like pension fund or something like that because I believe at the moment every reasonable person values having a job itself”

- Managing Director, Construction

Although a lot has been cut off from employees, most of the interviewees were doing everything they could to keep them committed to the company. Everyone was aware that at some point the current crisis will turn around and people will once again have a better opportunity to choose for whom they work. In order to commit employees to the company also after the current crisis, interviewees try to offer *“as much of what we can in these circumstances”* as one of the HR Managers expressed. Some of the benefits were kept (lunch discount, parking lot, small events, remembering employees’ birthday, *et cetera*). In general interviewees paid attention to interacting more with employees and trying to positively influence the work atmosphere. Communication and open discussion with, and among, employees was encouraged through regular meetings, events, and performance appraisals. This way employee could feel they were still valued, cared for and listened to.

“What we try to do now if the economical situation gets better that our staff will stay loyal to us. We try to influence employee’s trust on us and hoping in few years economic situation gets better and we will still have mainly the same staff. I think this is quite challenging, it is easy to disappoint employees during this situations. We try to do so that the influence for the future would be minimally bad. The commitment issue is always a threat especially when we reduced salary and influence has been on every employee of the company. Here you can only try

to communicate better and do the best and I hope this doesn't have any long term influence on our stuff"

- HR Manager 4, Retail

"So what we do, we have leaders meeting regularly, we try to communicate all the things more, we think that even if we have team event or office event we have to think what is the message we are going to tell the people to keep them enthusiastic and not all like this crisis this crisis because every day you open the newspaper you see companies going bankruptcy.."

- HR Manager 1, Law

All of the interviewed companies have had saving targets, and thus had to operate with minimum expenses. Prior to the current crisis, interviewees were able to offer benefits and bonuses to motivate employees so they would achieve higher results and increase their commitment to the company. Strong reward systems were also regarded as an important competitive advantage that added value in the recruitment market. However, interviewed companies' financial instability during the crisis did not offer them the same possibility to maintain their benefits and bonus packages. In the current crisis environment the meaning of reward systems had changed. Employers do not have a need to hold on to employees as strongly as before the crisis, nor to invest the same high level of resources to attract the new ones. Nevertheless, companies were eager to commit to their current employees, even with less resource available. By communicating, holding regular discussions, being open about the situation, organizing small events, interviewees wanted to make sure employees knew they are valued and cared for. So that in the future, when the current crisis does reverse, the current employees will remain committed.

5.6 Training and Development during the Crisis

Training and development is another HR practice that has been heavily impacted by the current crisis. According to most of the interviewees, the biggest change that has happened to training and developing practice is that they have shifted from using external training programs to developing internal training programs themselves. Basically all "extra" programs, such motivational training, and training events outside the company premises had been terminated. Instead, most interviewees built their own basic training packages for employees and managers in order to maintain the basic skills they needed.

“We have had to reduce motivational trainings and focus more on training of skills and trying to figure out how to do it economically most efficiently. We don’t combine trainings more with staying overnight and all this activities, we do trainings on site and we try to have vendors to do it for us in store rather than collecting people from different stores together”

- HR Manager 4, Retail

According to the interviewees, prior to the current crisis, training and development had received substantial resources to build up different programs, outsource coaches, and organize training events outside companies, within Estonia and abroad. However, during the crisis HR departments have had come up with their own ways to maintain the training and development practice. Only one interviewed HR Manager (HR Manager 1, Law) informed that there has not been any change to these practices. On the contrary, the company realized during the crisis that in order to stay competitive in the market, they felt the need to emphasize the development of their employees’ capabilities. Language skill training (mainly English) and retraining employees to other specialties has been strongly emphasized. In addition managers had received extensive leadership trainings in order to improve their selling, marketing and communication capabilities. According interviewed HR Manager 1, the crisis has impacted their business as well, but rather than reducing the level of their expertise, their strategy has been to match the needs and demands of the current market. The same company also sent employees abroad to extended training periods, so that they could share their knowledge among others when they arrived back to the home office.

“We also send people to abroad, the last one was in Amsterdam where our cooperation law firm is and where people can go for a month or six months, and we expect them to come back with a huge knowledge and to share this information. So one of our values is development and know-how sharing so if somebody is going to these training or some lecture we expect them to come back to organize brainstorming among the lawyers to exchange and share his knowledge”

- HR Manager 1, Law

“Nobody is buying or selling real estate know-how currently so we changed our focus and specialization again a bit (in order to meet demands). So it was a

strategical moment what we tried during this economic crisis we try to be flexible and see where it is going and survive in this turbulence”

- HR Manager 1, Law

On the other hand, it must be noted that the company in question is a law firm, while other interviewees were from a completely different industries (Retail and Construction). Because of the specific nature of law industry where people have higher levels of education, training and development practices are likely weighted more heavily for them as for the other fields of industries involved in this study. In order to successfully perform and to match the need of the changing market, lawyers require constant training and development in their field of expertise.

The remaining interviewees did not have the same situation with their training and developing practice. They were basically investing only on entry-level employees who required basic training at the beginning of their employment. Also managers were prioritized in training programs. Some of the interviewees took action in their own hand by starting develop and organizing internal trainings on their own. Instead of paying for expensive training programs, small group of internal HR personnel were instructed to build up their own methods to train and develop employees. This has shown solid results and also according to the HR Manager 2: *“brought us closer together during these hard times”*.

“We do it more by ourselves and outsource only what is really necessary and for management positions maybe. We have quite a large number of internal trainers who train our staff. Together with internal trainers, the HR department develops new trainings and do a lot by ourselves. And performance trainings have changed in such a way that they have gone more into seminar form and shorter, package like, so performance training has also changed”

- HR Manager 2, Retail

“I began working here before crisis and at that time we invested a lot of resources on training and development, it was a super year for HR. We had internal and external trainings for managers and employees. Now we have only trainings which are needed to have because of the new law enforcements, but we have no practical trainings anymore. We have tried to use our own ways to analyze and

train employees. At least employees to feel that they important and that they are listened to”

- HR Manager 3, Construction

On this matter interviewees were divided in two different categories. Most of the interviewees had significantly cut down their training and development programs during the crisis. Basically only entry-level training for new employees was provided. Also some interviewees continued to offer trainings to managers, although not as extensively as in the period prior to the crisis. The weak financial situation forced some of the HR Managers to innovate and develop their own trainings for employees. The results of these programs were extremely positive; company saved costs while maintaining some level of training for employees, it brought the work community closer together and, the positive results seems to have motivated HR Managers as well.

One of the interviewee, HR Manager 1 took another position on this matter completely. Instead of cutting resources from training, this Law firm decided to invest more and turn it into their competitive advantage during the crisis. They were aware of what their field of business required, and which direction it was moving towards so they acted accordingly. Sharing the know-how among employees, increasing their language skills, and changing the expertise according to what market needed was an excellent strategy to stay competitive grow a business also during the crisis.

5.7. Performance Appraisal during the Crisis

Based on the interviews, performance appraisal is the only HR practice that hasn't been impacted by the current economic crisis. Performance appraisal discussions were held in every interviewed company on regular bases. Some interviewees said having performance targets set and discussed once per annum, others twice a year or even quarterly. The only way the crisis has impacted performance appraisal practice, according to the interviewees, is that salary negotiations were no longer a part of target settings this year (2010). Formerly, during year-on-year performance appraisal discussions and evaluations, employees had an opportunity to renegotiate their salaries. Otherwise, through performance appraisal employers were able to give and receive feedback concerning work performance, discuss about future goals and directions, and evaluate possible skill improvements. Performance appraisal is also considered to be one of the means to improve employees' commitment to the company.

“We have (performance appraisal) on yearly bases and usually it has been connected with salary negotiations. I believe this year we will not have salary increase, at least not in spring as usually, but we still of course set targets for employees and analyze their performance”

- HR Manager 2, Retail

“Every year we take last year performance discussions and achievements and see how employee has achieved them and according to his development we discuss and see what we do next. We discuss the problems, ideas and goals for the future. Employers will see what employees think about them and about their work and vice versa. Future trainings, skill improvements if needed, possible salary increases..”

HR Manager 3, Construction

“Annually we go through the competence model or the competences, we give feedback, we decide what training is needed, training budget for the year, direction, let’s say one is bad in English you have to take this course, you develop your project management skills and so on and quarterly (performance appraisal)is held more quickly maybe over the lunch”

- HR Manager 1, Law

Performance appraisal practice has not suffered from the crisis as much as the other HR practices. Perhaps this was because they did not require much resource to maintain and that it was beneficial for both parties to regularly carry on. The practice is regarded as an important means to keep track of the employee development curve, and based on this, a forum to set the new targets. It also gave an opportunity for employer and employee to discuss openly, give feedback to one another and express whatever on their minds. And although salary negotiations are no longer a part of the performance appraisal, all interviewees still agreed about its importance. Especially during the crisis when employees are concerned about their situation and own future within the company. What better way to motivate and get employees feel secure than setting future targets and directions for them.

5.8. The Future of HRM

Although interviewees' HR departments have had major setbacks during the current crisis, they did mention positive effects of the crisis as well. All interviewees acknowledged that Estonian market's long growth period and risky actions of lending and spending partially influenced the severity of the impact felt in Estonia. The companies were careless and according to some of the interviewees deserved to be properly awakened.

"I think economic crisis has been a strong basis for it (current market situation), but also companies' fast development and riskiness actions. They could have planned before, not live only on the day at a time, but looked in the future as well. If companies would have been more aware of risks and had good management who found new niches for business, we would have survived better"

- HR Manager 3, Construction

"Problems are mainly spurred from economic crisis, but I consider that development has been too fast for Estonia and when people and companies get credits from banks too easily and without sufficient guarantees, it kind a spoils the attitude and now we have to deal with the consequences"

- Managing Director, Construction

Interviewees were unanimous that the way of doing business has significantly changed during the current crisis. The pace has slowed down, companies have had to really think about the next steps to take, how to avoid major risks, and still maintain their businesses. In addition to thinking and planning ahead, interviewees agreed that companies have had to learn to cope with the challenges of less resource and learn to be innovative in order to survive. The crisis has also forced people to return to reality with regards to the formerly high salary requests. And in addition, it has also motivated many to widen their skills and knowledge in order to increase their employability. The fact is that Estonia is still lacking a significant number of highly skilled employees who will always be needed no matter what the economic environment is.

"I think that during the long success period people can lose the reality and the need to think all your actions through is less. I think that one outcome is of course the companies know how to work more efficiently if possible and also when time

goes better that companies in Estonia will think into the future ahead and not so much on this day”

- HR Manager 4, Retail

“People have to widen their skills and knowledge more, to increase their competence. Wide range skills are valued now more and people know it. I think that construction quality will be higher now when we won’t have as tight time limits to end projects. This situation also influences on employee-employer relationship, perhaps makes it closer. People have better reality sense about their selves and salaries”

- HR Manager 3, Construction

For HR-practitioners the crisis is above all, an opportunity to learn from the current market situation, to think ahead and to use all of their capabilities to do better in the future. Furthermore it has provided the opportunity to demonstrate that human resources are a critical asset to a company, and that employing the right people can prove to be crucial for organizational survival and success. When asked about how interviewees saw the situation of HR unfolding in the future, their outlooks were optimistic. The economy is estimated to recover in the near future, resulting in the stabilization of industry and hopefully development in the not too distant future.

Employment is expected to slowly get back on track as well, followed by increasing salary levels and employment benefits. In fact, one of the interviewees (HR Manager 2, Retail) already admitted to forecasting the same labor shortage in few years as they were experiencing before the current economic crisis. At the same time interviewees all stated that there were opportunities in a time of crisis: HR has opportunities to develop and improve to a level that is even stronger than before.

“I am positive, I hope that crisis will end and it has been forecasted that in 2012 we have again labor shortage. Of course a lot depends how and if the euro comes to Estonia. What it does to prices and other things. Let’s see what it will do to our economy, with salaries, et cetera. It’s another challenge.”

- HR Manager 2, Retail

“If the situation will get better, I believe that HR practices and salaries will be at the same level again.”

- HR Manager 3, Construction

“It depends on economy; I think in 2010 we will be in a pretty much similar year as the previous one. We have to survive this year and after that the survivors will live further and some kind of development starts again”

- Managing Director, Construction

The current economic crisis did not seem to be as much of a surprise to the interviewees. The signs of economy over heating were visible, as the economy simply grew too fast to sustain its trajectory. Many companies were careless towards risk taking and borrow money without being aware of the long-term visibility of the business, or their respective market for that matter. The crisis changed both attitude and behavior. Interviewees agreed that the crisis served as a good lesson for the Estonian business mindset.

Surprisingly, the interviewees saw also several positive aspects that have come out of the crisis. Not only in changing the attitudes of the companies and employers, but also employees. Experiencing a period of high unemployment and uncertainty that Estonian has not experienced for many years, has been a shock to labor market. One thing interviewees hoped for is that after the crisis people will be more reasonable with their salary requests, and value the job they have. Also the crisis has pushed many to develop their skills and knowledge through education, which is always valued by employers no matter what market situation is.

5.9. Summary of the Findings

The interview outcomes of this study give a clear overview on the impact of the current economic crisis in Estonian HR. Estonia's almost decade long economic growth shaped HR field according to the conditions that market was experiencing at that time. As companies and organizations expanded their businesses, there was a constant need of competent employees. HR functions were concentrating on recruiting, head hunting, using agencies to find people with the required skills. Reward systems, and training and developments practices were growing in their importance as a means to attract and improve employee commitment. Companies were fighting for human capital by offering wide benefits and bonus packages.

The demand side of the labor market yearned for more work force than there was on offer. This was especially the case for professionals and specialist positions.

In the current economic crisis the Estonian HR field has met many new challenges, and at the same time, new opportunities which were not present. Severe resource cuts have forced companies to reduce their operating expenditures to minimum. This has meant lay offing people, decreasing salary levels, cutting resources from HR practices such as training and development, reward systems, and recruiting. The interviewed HR professionals experienced all of these changes in their companies to some extent. The high unemployment rates means a significant increase of people in the job market. None of the interviewees saw the need to use recruiting agencies any longer. Employees are easier to find because there are significantly more active applicants. However, most of the interviewees also expressed concerns regarding the quality of applicants. Although it was easier to find employees in general, labor pool was much wider and employee requirement demands have increased. Those interviewees that handle hiring tasks have much tighter applicant requirements relative to the pre crisis period.

Reward systems and training and development have suffered from decreased resources. All of the interviewees had to minimize their benefit and bonus package offerings. The emphasis has been more on softer values, and offering non-monetary motivation. Interviewees are encouraging employees and managers to communicate more, give and receive feedback, have open discussions and keep employees aware of what is going on. This was also considered important in order to improve employee commitment to the company after the crisis unfolded. Training and development practice have been impacted by the crisis as well. One of the interviewed HR professional strategies was to actually increase the level of training in order to stay more competitive in the market. Through carefully analyzing the need of their specific field of business and where it was heading, they were able to change accordingly and offer what was needed. The other interviewed decreased their training and development programs to the basic entry-levels trainings. The lack of resources forced few of the HR professionals to be more creative and instead of paying for customized training programs, they begun to plan and organize them themselves. This was taken as a positive development for their HR function and they received good feedback from employees as well. The only studied HR practice that was not dramatically influenced by the crisis is performance appraisal. Interviewees stated that the practice was continued to be held on a regular bases. It was considered important because of its usefulness to both sides. Employees were given a chance

to give and receive feedback, to discuss openly, set new targets. And for employers it was a good way to review employee. The only change in the practice was lack of salary negotiations during the current crisis.

All in all, crisis has brought along negative and positive aspects to Estonian HR. Although interviewed professionals were not happy about the general situation, their companies' financial condition, and market environment, they were still able to look at the positive changes the crisis brought forth. For HR it means being more prepared, looking more carefully at forecasts, be more independent and risk averse. For employees interviewed hoped that the crisis would bring more humble attitude towards salary requirements and realistic expectations regarding career development in the future.

6. CONCLUSIONS AND DISCUSSION

In the final section of this thesis, the theoretical and empirical findings are combined in order to form a conclusion about how the current economic crisis has impacted Estonian HR and its practices. Suggestions for further, more extensive research into the topic are also given in the end of this section.

The main objective of this study is to obtain insight on how the current economic crisis has impacted Estonian Human Resources function and more specifically, HR-practices, such as; recruiting and training, reward systems, training and development, and performance appraisal.

The practices that are examined in the study are generally considered to be parts of high performance work systems (Becker and Huselid, 1998). These systems are also commonly found in many well performing companies and organizations and have also found wide acknowledgement among academic literature (Ervasti and Suutari 2004; Hannon et al. 1995; Pfeffer 1994, 1998; Rosenzweig and Nohria 1994). The objective of the study is answered through an extensive look into related literature and semi-structured interviews with four Finnish companies' subsidiaries and one Estonian company, which are all based in Estonia.

Both past research and findings of this study regarding the impact of the current crisis on HRM and its practices in Estonia support the notion that economic instability has a strong impact on overall company performance and its HR activities (Lähteenmäki et al. 1998). The actions and measures most companies undertake during the crises affect HRM in many ways. The most visible result of the crisis is unemployment, which usually rises depending on how strong of impact the crisis has on the economy. Starting from 2008, Estonia has experienced nearly 135,000 job losses, that is 19.8 percent of the total labor market (Statistics Estonia, 2010). For HRM this means substantial human resource cuts, evaluating who and how many to downsize, and analyzing the optimal amount of employees needed to maintain business operations.

In addition to the downsizing measures that were taken in every interviewed company, salaries were decreased from 10 to 15 percent, and working hours were reduced. Almost a decade of Estonian economic growth, which brought along increasing salary levels, business expansions, and unfortunately for companies also lack of labor was finished.

The deep recession has been linked to poor company performance and poor HRM (Lähteenmäki et al. 1998). This was also evident in the findings of this study. All of the interviewed companies experienced some level of cost reductions, which significantly influenced HR practices. The hardest impacts of the crisis were felt in both recruiting and selection, and reward systems. Both practices experienced significant resource reduction in all the interviewed companies. The requirements of recruitment new employees became almost nonexistent due to downsizing measures, although there were many applicants available in the labor market. This amounted to a remarkably different situation compared to only few years back. However, if someone is being recruited, competition for the opening position is high.

Recruiting and Selection - Tight applicant requirements have also had an impact on some of the interviewed HR departments' selection process. Two of the interviewed companies had agreements with universities to track "best" students and even support them monetarily. In addition, psychological, language, and personality tests were more frequently used than before the crisis (4 out of 5 interviewees informed using at least one of these selection criteria). Also none of the interviewed companies saw the need to use recruiting agencies or headhunters currently, something which was commonly used prior to the crisis (Heliste et al. 2007). For applicants, the difficulty of getting employed is seen as an opportunity for them to increase their qualifications, while at the same time they have been forced to lower their salary expectations and demands.

Reward Systems – Next to recruiting and selection practice, reward systems are the other HR-activity, which has been significantly impacted by the crisis. Monetary benefits, which were one of the strongest motivation factors used prior to the crisis to improve employee commitment (Heliste et al. 2007), have been strongly cut significantly in all of the companies participating in the study. Hence, during the crisis a motivational emphasis has moved towards softer values. Instead of offering wide monetary benefits, bonuses and high salaries, the interviewees have been more creative by motivating employees with minor benefit compensations, such as handing out meal tickets, organizing internal events, and mutual sport activities. In addition, all of the interviewees emphasized open communication, listening to employees and two-way feedback sessions to increase employee belonging and make employees feel cared for. As Gurchiek, (2005), found one of the most important parts of crisis management is a continuous line of communication. Otherwise employees might easily become distressed (Pearson and Claire, 1998), which would influence their work efficiency

and commitment to the company in the long run. Interviewees seemed to be aware of the importance of communication and are motivated in building different ways to encourage open communication in their companies. This emphasis on communication is one of the reasons why performance appraisal was highly regarded during the crisis. Other than salary negotiations, the function of performance appraisal remained the same as prior to the crisis in all of the interviewed companies. Its function as setting the targets, giving and taking feedback, performance evaluations were seen as an important means to motivate employees, and to develop their skills and knowledge levels. Through regular evaluation sessions, performance appraisal practice was seen valuable also for employer in analyzing the development curve of the employee.

Training and development – activities, according to interviewees were diminished to a minimum, retaining only basic training of entry-level employees and for managers. External training and developing programs, which previously were available for employees and managers, have been changed over to internal trainings. During the Estonian economic growth period, companies invested in training programs to stay competitive (Roderick, 2006). At the same time providing in-house training and language courses were used as a means to commit employees to the company (Heliste et al. 2007). Although interviewees still considered training and development as an important practice to commit and motivate employees, the crisis has temporarily decreased its activity. Instead, some of the interviewed companies have been forced to develop internal trainings to maintain the practice. Only one of the interviewees (HR Manager 1, Law) did not reduce training activity, but rather increased the retraining possibilities of employees and hired external coach for language skill improvement. Their response to the crisis is to widen their expertise, in order to be more flexible to the changing market needs, thus increasing their competitiveness. The fact that the company is specializes in law practice, explains the reason to emphasize training and development practice. In order to keep up with changing market demands, lawyers must have the skills and knowledge to face the needs.

Table 1: Summary of Changes in HR practices prior and during the current economic crisis.

Pre-crisis	During the crisis
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Recruiting & Selection:

- Lack of labor
- Lack of competent employees, specialists, professionals
- Recruitment agencies and headhunters in wide use
- Wide labor pool
- Recruitment minimal due to the cost reductions
- Tight applicant requirements
- No use of recruitment agencies or headhunters

Reward systems and Motivation:

- Emphasis on monetary motivation
- Wide work benefits (car, phone, sport, events)
- High bonuses, salary level increase year-on-year bases
- Emphasis on non-monetary motivation
- Soft values
- Motivation through positive work atmosphere, communication, feedback, listening, caring
- Keeping a job itself one of the motivation factors

Training and Development:

- Training and development as a means to commit employees
- Training abroad
- Language skill training
- Usage of external training programs and coaches
- Basic level of training maintained, i.e. entry level employees
- Internal training programs
- Training in the company premises
- Retraining to other competences

Performance Appraisal:

- Performance appraisal as a means to commit employees
 - Performance appraisal as a means to commit and motivate employees
 - No salary negotiations
-

In spite of the hard times faced by the examined sample of interviewees and the significant impact it has had on their HR-practices, the future was seen in an optimistic light. All interviewees saw the current period of crisis being a “natural” way to balance the market, which was in a constant growth state for almost a decade. The situation is seen as a good opportunity for companies to learn to cope with less, avoid unnecessary risks, and look ahead. All of the interviewees felt that this it was a wake up call to reality given the past high salary expectations. In general, the market situation is forecasted to recover during the next year (2011), meaning better times for HRM as well.

Finally, the above table briefly summarizes the findings of the current study on how studied HRM practices were impacted by the current economic crisis in Estonia.

6.1. Suggestions for Future Research

The topic of crisis impact on HRM remains underexplored and therefore needs more research. The scope of the current research was mainly restricted by time constraints. The topic should be studied in more depth in order to determine how the duration of a crisis is related with the HR function, as well as taking into consideration wider scope of HR practices. Findings from this study indicate that, while HR practices suffered from significant resource cuts, HR's significance had not diminished. On the contrary, four out of five interviewees informed that the HR function in their organization had evolved in a more strategic functional role. While the scope of this study is relatively small, the strategic role of HRM during the crisis would seem to be as an interesting next level of study.

Compared to the period prior to the crisis, the core function of HRM has mostly been involved around recruiting and reward systems. However, in the current situation, the mindset of HR-professionals has shifted from finding qualified employees and dealing with administrative issues to playing a more strategic role in order to ensure well being of organization and its employees. Other than direct impacts of crisis on HRM, there is also a need to study how organizations actions during the crisis towards HR, influence the performance of the company itself and its human capital. As previously discussed, major downsizings can lead to a so called "survivor syndrome" on survivors of downsizing when left to cope with increased workloads and job responsibilities (Maki et al. 2005). Other than that, it is important to study how severe cuts to training and development or their internalization influences employee performance in the long run. This suggestion for future study came up when one of the interviewed companies decided investing in training and developing rather than cutting its resources as the rest of the interviewees were forced to do.

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APPENDICES

Appendix 1: The General Themes of and Questions for the Interviews

Set 1: The Interviewees' Job and Experience

1. What is your position in the company and main responsibilities?
2. What is your work background: have you worked mainly in Estonian companies or also in foreign companies?

Set 2: The Interviewee opinion of general impacts of the current economic crisis on business and HRM

3. What are known HR related challenges and problems in Estonia and how they are solved?
4. What are the impacts of the crisis on business and how have you responded to them?
 - Downsizings?
 - Reduction of working hours?
5. What is your flexibility of reducing/temporarily dismissing workers?

Set 3: The interviewee's opinion on how the current economic crisis has impacted on HRM practices

5. In what way economic uncertainty has impacted on company's HR policies and practices?

HR practices in detail:

Recruiting and Selection:

6. Has recruiting and selection been impacted by the crisis?
7. If it has, in what ways compared to prior to the crisis?
8. Have your recruiting and selection requirements changed during the current crisis?
9. Do you use outside recruiting agencies, headhunters? Prior and after the current crisis.

Reward Systems and Motivation:

10. Has reward systems and motivation been impacted by the crisis?
11. If it has, in what ways compared to prior to the crisis?

12. What are the main elements of compensation (bonuses, training, social benefits, *et cetera*) prior and after the crisis

13. How do you motivate your staff during the current crisis?

Training and Development

14. Has training and development been impacted by the crisis?

15. If it has, in what ways compared to prior to the crisis?

16. What kind of training and developing programs do you use?

17. For what purpose do you use training and development practice?

Performance Appraisal:

18. Has performance appraisal been impacted by the crisis?

19. If it has, in what ways compared to prior to the crisis?

20. For what purpose do you use performance appraisal?

21. How regularly this practice takes place?

22. What is discussed during the performance appraisal?

Set 4: The Interviewee's opinion of HRM in the future?

23 Do you think people have learned something during this time of crisis? What?

24. How do you see Estonian HR to unfold in the future?

25. How do you see the future of HR in your company?

Appendix 2. Organizational Statuses of Interviewees

Table 1: Organizational statuses of interviewees

Interviewee	Industry	Date of Interview	Organizational Status
HR Manager 1	Law	12.1.2010	HR Manager
HR Manager 2	Retail	12.1.2010	HR Manager
Managing Director	Construction	12.1.2010	Managing Director
HR Manager 3	Construction	13.1.2010	HR Manager
HR Manager 4	Retail	14.1.2010	HR Manager

Appendix 3. Unemployment Rates and People Unemployed in Estonia

Chart 1: Unemployment rate as a percentage of the labor force in Estonia between 1997-2008 (Statistics Estonia, 2010).

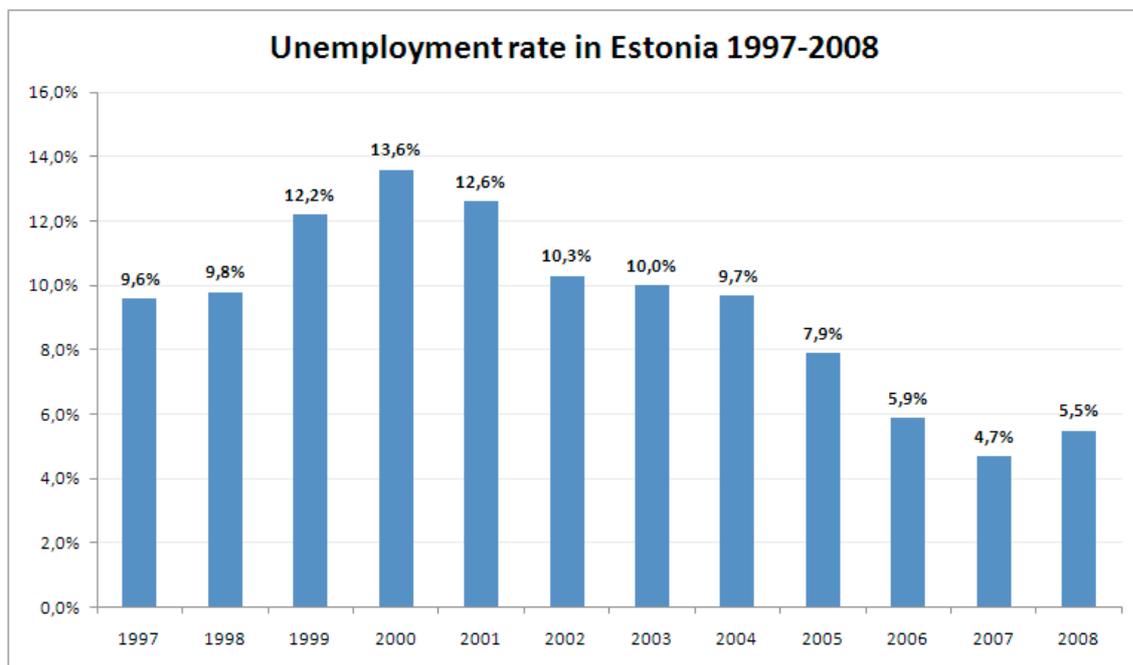
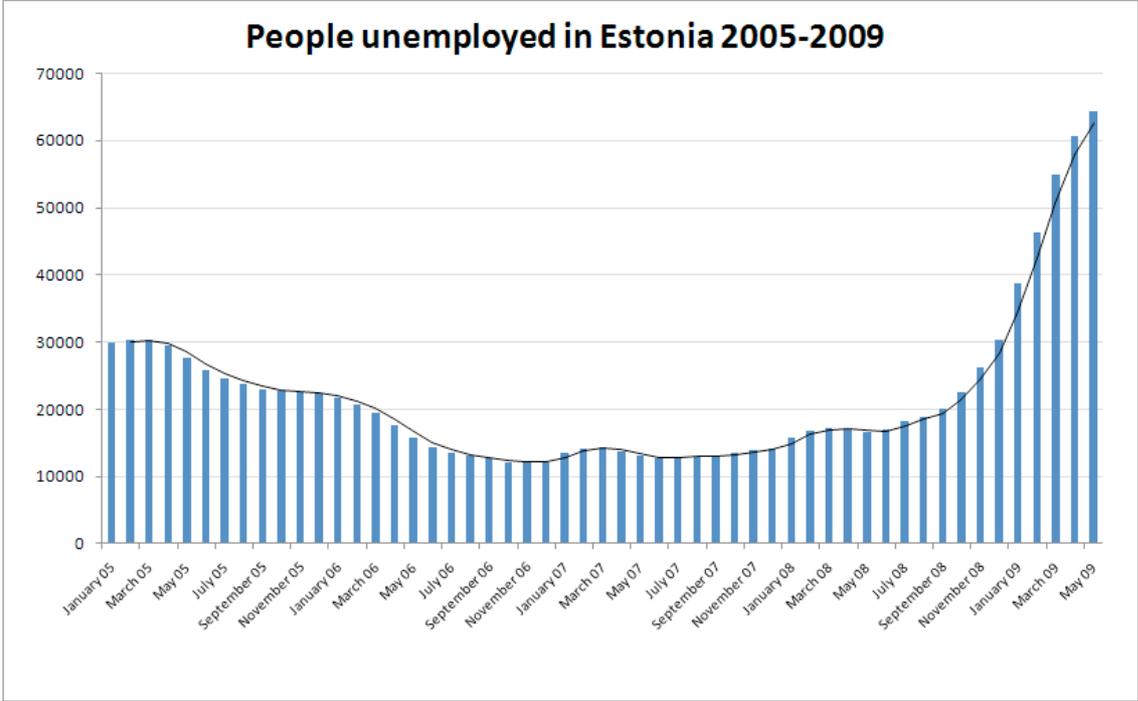


Chart 2: People unemployed in Estonia between 2005-2009 (Statistics Estonia, 2010).



Appendix 4. Real GDP Growth in Estonia

Chart3: Real GDP growth in Estonia (Statistics Estonia, 2009).

