

Sense and Sensibility

Sense and sensibility – Poised between doubt and belief



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The title of this year’s survey recalls the great English novelist, Jane Austen. “Sense and Sensibility” reflects the dual standpoint of the business leaders who responded: wary of risks but faithfully optimistic.

One of the diagrams below provides the key to reading and interpreting this report: large corporations have reorientated from expanding and developing to safeguarding and streamlining their businesses.

This more cautious approach has implications for Finland’s economy as a whole, which are likely to be less than positive. As a state or society, we cannot succeed by hunkering down in drowsy isolation.

The importance of the survey’s results should not be downplayed. Its respondents may be fewer than two hundred, but they are all executive-level spokespeople for their companies, which recorded revenue of €244.6 billion in the last full financial year. Most respondents also represent the elite of listed companies and other major players in the economy.

An apt point of comparison would be the Finnish government’s final budget forecast of €83.2 billion in state revenue and borrowing for 2023. The major economic contribution of large corporations is always a core issue: who gains and who loses.

The key question is whether Finland is an attractive environment for future investments by big companies. We must peer through a blurry lens for the answer – Finland is a stable and safe country, but its rigid labour markets do little to make it more inviting.

The responses indicate an upswing in belief in Finland’s political leadership since last year. Respondents approve of the new government’s general economic direction: the dismantling of incentive traps and introduction of business-friendly policies. These results are the mirror image of last year’s pessimistic assessments during the previous coalition.

On the other hand, belief walks hand-in-hand with reality. Only a clear minority of respondents predicts a turn in public borrowing trends, since economic structural reforms are unlikely to take effect during the current government term.

Politics is always an awkward subject for executives: “Stay in your lane!” typifies their generally quiet and humble approach. However, the survey responses cannot conceal a flicker of frustration.

Leading a state and nation is not the same as managing a large international firm, but the numbers tell an unmistakably bleak story. Finland’s fiscal health is becoming a widespread concern among respondents.

In autumn 2023, respondents expressed their disappointment in red tape when asked about immigration. New workers are needed, but the current right-wing coalition has an air of pessimism about the state's success in integrating newcomers. However, this particular result was very similar for the previous red-green coalition.

Executives' disappointment in public policy often surfaces in the form of gripes in the media, expressed too late. "I told you so" hardly helps when the milk is already spilt. I share the respondents' belief in the value of closer dialogue between business leaders and government. After all, everyone must face the same basic facts. Besides, don't those who have risen to leadership positions in the biggest employers have something valuable to say about the welfare state and national economy – preferably before another crisis erupts?

The respondents are strongly oriented towards the West. Finland's NATO membership is viewed as an opportunity, but rather indirectly; the survey results are more suggestive of dispelled doubts than direct commercial gains. However, respondents believe that Finnish actors will have a higher profile in forthcoming tenders among NATO countries.

Fair winds from the West also promote the balancing of risks. The lure of China is ebbing in a healthy way, reducing overdependence. No one now believes in the Russian market, but trust is growing in the euro area and North America in terms of customer relationships, production and employment.

Doubts about China are being counterbalanced by belief in India's development. The next question is how well rosy media images of Finnish delegations to India genuinely translate into business.

Then again, the responses of autumn 2023 are not all doom and gloom. Investment levels are not collapsing, their growth is slowing. Another sign of structural change in the economy can be seen in intangible investments, which increasingly involve the replacement of old assets.

Machines must be periodically replaced in the digital world too, where generational cycles are faster than in physical production plants. This is a point which interpreters of financial figures have to make increasingly often.

I am delighted to see how our respondents' attitude to responsibility has matured over the years, as their focus on sustainability has sharpened. We can now rest assured that this is the result of genuine convictions rather than just public pressure.

In my view, leaders of large corporations are already far ahead of public policymakers in their approach to sustainability. The laws of global capital markets have steepened their learning curve: investment dries up and a company's reputation suffers unless its activities bear examination. Indirect pressure can provide the strongest inspiration for making the right choices.

Luckily, this survey and its conflicting results could be named after "Sense and Sensibility", not Jane Austen's other classic "Pride and Prejudice", which would have needed quite a different introduction. Now is the time for being tough but sensitive to our surrounding world and society, as we move forward.

A prolonged period of waiting



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OP Corporate Bank

The economy and uncertain business environment are impacting on the growth expectations of Finnish large corporations.

Only a tenth of big firms intend to expand and develop their operations this year, which is a major change compared to the one third of large companies aiming for growth two years ago. Finland’s top executives are now focusing on increasing their productivity and efficiency, rather than growing.

Low growth expectations are also impacting on investments: over half of tangible and 40 per cent of intangible investments are earmarked to ensure the continuity of current activities. This is the highest share of investments to have had such a focus in five years.

Finland may be the corporations’ home country, but the respondents have an international orientation. They expect most new growth to come from outside Finland, and that subcontracting, employee numbers, and demand in their main industries will grow faster abroad than here.

Although large companies have become more resilient in recent years, business is now vulnerable to inflation, higher borrowing costs and labour supply problems in particular.

Seven out of ten large corporations expect unpredictable interest rates to cause problems in the coming years. Highly leveraged firms, and those whose customer demand is lowered by borrowing costs, are hardest hit by rising interest rates. However, rate rises also impact on the profitability of investment projects in moderately indebted companies.

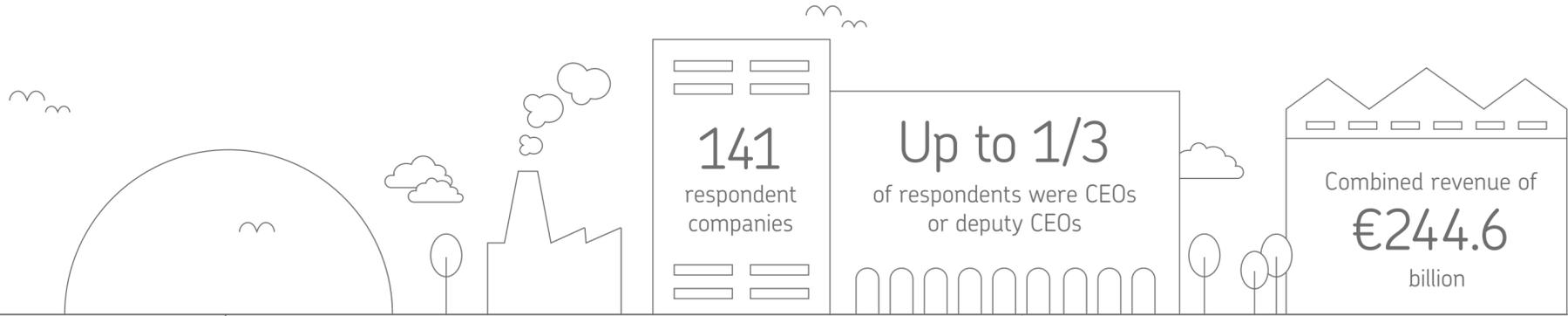
These clouds of uncertainty have a silver lining – the crises of recent years have increased large companies’ speed of reaction. In times of crisis, big firms feel strongest in their core production activities. They also draw strength from their financial resources.

Although an economic downturn is undeniably underway, Finnish large corporations remain financially sound and their earning power is still relatively high.

Companies will soon have waited four years for the period of crisis to end, and the era of active waiting looks set to continue in 2024.

The wait may be long, but executive decision-makers know that now is the time to build the basis of future success. Many large companies are lifting their eyes towards the horizon and preparing for the next upturn.

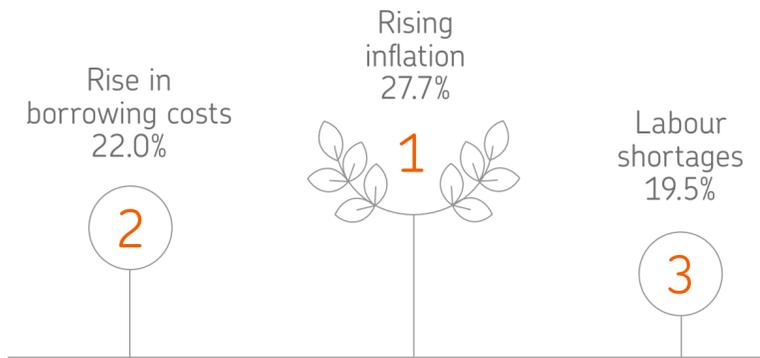
Sense and Sensibility



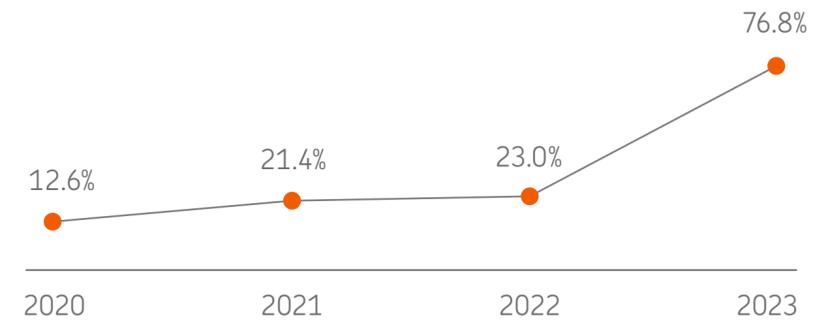
1/10

of large corporations mainly aim to expand their operations and develop them further. The share was last this small in 2015.

Companies' top three vulnerabilities



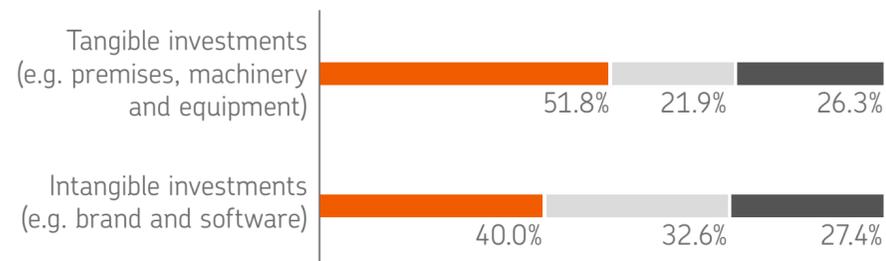
Share of respondent companies which view the Finnish government's economic policy as an opportunity



56%

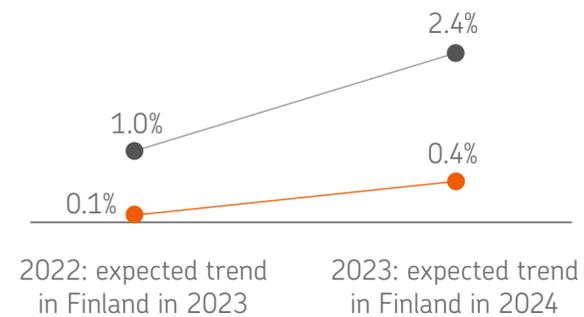
of respondent companies have had to change subcontractors or suppliers due to responsibility obligations. The share of such companies has grown by 13% in a year.

Most investments aim to safeguard operations – “maintenance backlog” is the key theme of intangible investments



● Safeguard current operations ● Both ● Create new business

Growth in demand is expected outside Finland



● Trend in Finland ● Trend abroad

57% 

do not view China's rise as beneficial for their industry in the long term.

39% 

regard a stronger India as an opportunity.

Environmental responsibility still number one – ESG priorities



8/10 of the responding companies regard solving acute social problems as one of their tasks. This is the highest share in six years.

Due to rounding, the figures presented do not necessarily add up to one hundred per cent.