

HYDROLINE

Case study

Work Package 2

Authors:

Marja Janhunen M.S., Lecturer,

Valeriya Gogunskaya, Student

Savonia University of Applied Sciences, Finland

Table of contents:

..... 2

A- EXECUTIVE SUMMARY..... 3

B – BASIC INFORMATION ABOUT THE COMPANY 3

C – ENVIRONMENTAL ANALYSIS 9

D – DEFINITION OF THE PROBLEM 9

F - DISCUSSION/ANALYSIS/REFLECTION11

G - REFERENCES13

Hydroline Oy Case – Finland



"It took 50 years to get where we are today. And we're just getting started."

- Jukka Laakkonen, CEO, Hydroline Oy

A. Executive summary

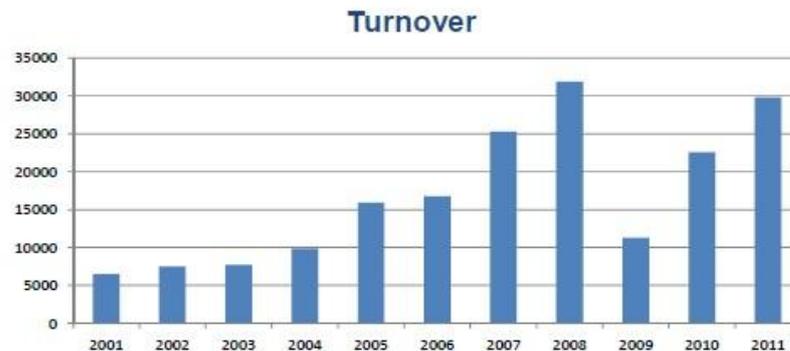
The following case is written for the educational and training purposes of students, entrepreneurs and teachers as a material to be used in studying frameworks and source of practical advice. The case tells about Hydroline Oy, Finland, a medium-size company, which is a one of the most advanced companies in cylinder manufacturing world-wide. The case aims to reveal the internationalization of a local family company, business environment in Finland, and particularities of B2B sector. The problem of the case, however, is connected to internal communication of the company. On the example of Hydroline Oy, possible solutions to communication difficulties will be shown, since the company managed to solve them out successfully.

The case study is primarily based on the interview with the company representatives. However, additional sources as specialized literature, on-line editions, magazines and surveys are also used as a theoretical background.

B. Basic information about the company

Hydroline Oy is Finland's largest cylinder manufacturer and one of the most advanced pioneers in the industry at the international level. It operates in mobile segment and makes its products for extractive industries, vehicle manufacturing, forest machinery, crane and lifting and mining industries. It hires approx. 200 employees, and its turnovers have rocketed up 5 times since 2001, reaching 30 million euro in 2011. Hydroline is a bright example of a local family company going international with a big success.

Long tradition – Unlimited possibilities



Turnover of Hydroline Oy (1000 €) in 2001-2011.

It all started just like a common story in mechanical-engineering field in Finland, when Helge Laakkonen founded a metal lathing shop in Sillinjärvi, in 1962: one guy, one machine and an idea how to produce different kinds of machine components for local companies. For instance, Normet and Valtra, nowadays huge industrial players, have been his customers from the very beginning, and their needs directed the specialization of production. Thus, future Hydroline was following the demand from existing customers, which finally led to its focus on hydraulic cylinders manufacturing. The focus was becoming stronger and stronger as years passed by, and by the end of 80s, the company had been fully specialized on hydraulic cylinders production. From that on, business started growing rapidly. The use of computer controlled machines and robots in company's activities for the first time in the whole region contributed significantly to that growth.

As said above, the company is a hydraulic cylinder manufacturer. But what is actually hydraulic cylinder? This is a mechanical actuator – muscles of the organism - used in different kinds of machines in order to make them move. The hydraulic system segment can be divided in 3 different areas: low-end, mid-end and high-end solutions. Recently, Hydroline Oy has been concentrating more and more on high-end solutions. This segment is characterized by a wide choice of material options and ultimate competence needed. The quality of a product is the most critical aspect since the customer is not so aggressive about pricing but is quality and delivery performance driven. Moreover, high-end segment can be called “tailor-made” segment: each customer gets a unique product, created according to his particular requirements and needs. Even though Hydroline is an industrial player, it is a service company in a deeper sense. The work with a customer starts from the very early stage of a lifecycle of a product, when a client has

merely an idea of what he wants, and continues until the “muscles” are built into machine. This strong customer-orientation results in 1500 unique products in company’s portfolio each year. There are no ready-made solutions: only concepts, used as a base for creating a special final product.

Values guide us in everything we do

From all said above it can be clearly seen that in the middle of all business operations is a customer and a customer promise. It is surrounded by a set of core values – a stepping stone in every activity:

- **People** (employees). They are company’s expertise.
- **Commitment.** Commitment to customer’s problems and needs as well as commitment to company’s mission and vision. At Hydroline, the customer is central to everything we do. When the customer succeeds, we succeed. Hydroline focuses on comprehensively identifying and meeting the customer's needs, using all its experience and expertise.
- **Sustainability.** Financial and Environmental.
- **Interaction** both internally and externally, with all stakeholders. Continuous communication with the customers and within employees. Information is no longer power - sharing it is. In terms of developing expertise, it is crucial to share tacit knowledge and learn from experience. Hydroline strives for open and active interaction with internal and external stakeholders.

Hydroline's values are defined collectively by the members of our organization. Through these values, Hydroline is committed to, among others, the following:

- understanding the customer's needs and requirements for the product; making every effort to achieve the objectives set for it, without exception; using customer satisfaction as a daily gauge of quality and the basis for all design work
- engaging in environmentally-friendly operations, maintaining and developing the existing level of occupational health and safety and complying with all applicable laws, decrees and regulations
- engaging in responsible and ethical operations, which is an absolute requirement for Hydroline's success; the desire to be a safe and efficient workplace, where the environment and employee well-being are always taken into consideration in decision-making
- reducing environmental impact by using raw materials as efficiently as possible and properly processing all waste generated

- maintaining open and confidential relationships with stakeholders; committing itself to fulfilling its obligations and doing flawless work, using prescribed methods and work practices
- ensuring that each company employee assumes responsibility for the quality of their work and takes environmental and safety matters into consideration. This will allow us to maintain and develop the operational system level we have achieved.

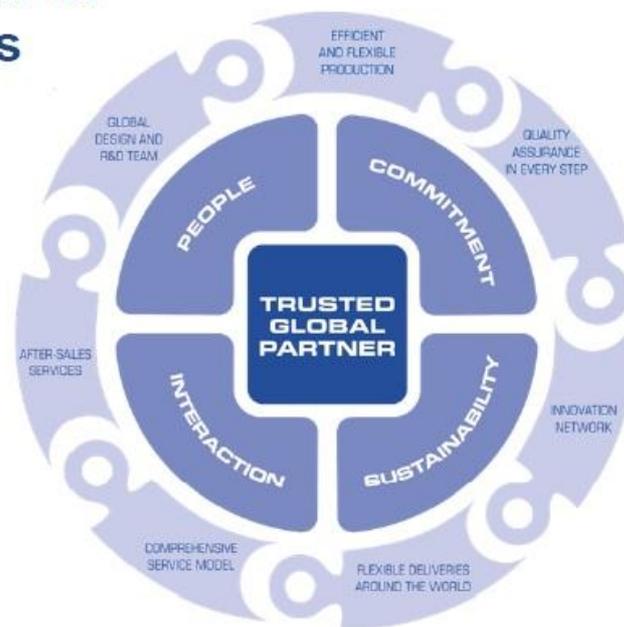
Core competences

Around value concept there are core competences, which are both things Hydroline have succeeded to do better than its competitors and things to be developed more and more in the future.

- **Efficient and flexible production**
- **Quality**
- **Networking.** Innovation networking and innovative networking. It is unnecessary to do everything by yourself – one should have competent and trusted partners.
- **Flexible deliveries** around the world
- **Comprehensive service model.** Controlling every part of the process from idea development to post service.



Forerunner in Hydraulics

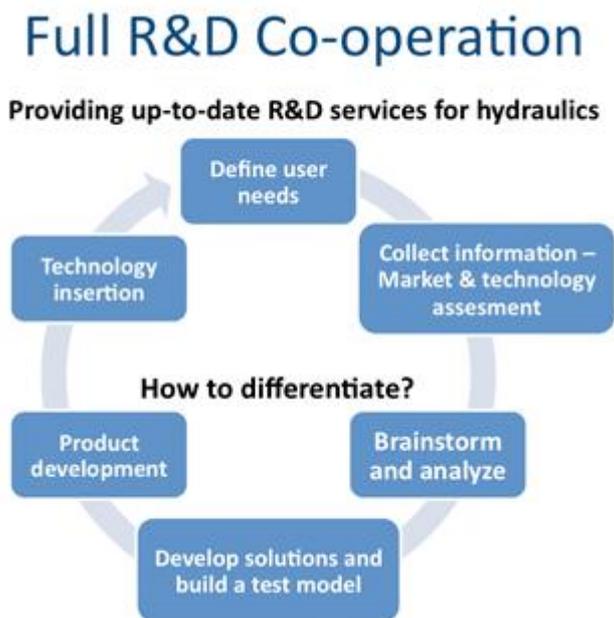


Core values and core competences of Hydroline Oy

Trendsetting pioneer



The foundation of Hydroline's research and development is a customer-oriented culture of innovation and approach to developing solutions. Close cooperation with our customers combined with world-class expertise ensure that we are always at the forefront of industry development.

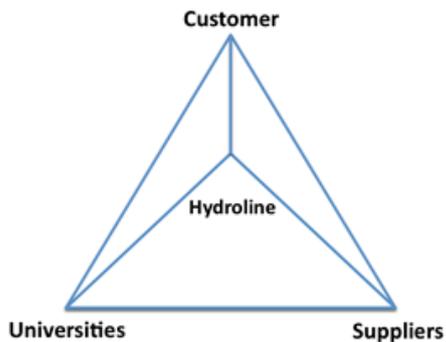


Our culture of innovation is thus based on a comprehensive understanding of the customer's applications. We conduct a thorough analysis of machine end-user needs together with the customer. Our extensive experience guarantees that we can contribute to the development of not only hydraulic cylinders, but also the following areas:

- hydraulic systems
- control systems
- manufacturing technology solutions

We give environmental considerations special attention in our design and product development. We use energy efficiently and minimize environmental impacts. In development work, we strive to use network cooperation as much as possible:

Utilization of Hydroline's network



Competition

All the values and competences serve the prosperity of the company and satisfaction of the customers, who are represented by big multinational companies (John Deere, Cargotec, Sandvik, Valtra etc.), operating in mobile segment. Majority of them are listed companies – this is the common criteria behind them.

Not forget to mention the competition in hydraulic cylinder market, which primarily comes from a huge international player Wipro (India). This company has the similar approach to Hydroline's with the only difference of its size being 10 times bigger as well as scale of operations stretching from India to South and North Americas. Besides Wipro, smaller Finnish companies, such as Nurmi and Norrhydro, also compete with Hydroline in the market. Even though, the competition from them has been tackled, they still need to be constantly monitored to avoid unpleasant surprises.

Needless to say that constant growth and competitiveness can be achieved only by following an effective strategy and setting clear targets for the future. The latter ones are more than ambitious for Hydroline, even aggressive. Besides company's target is more than double the turnover to 70 MEUR by the end of 2015, they aim for opening production lines in Asia and Eastern Europe. INTERNATIONALIZATION is the priority for the company nowadays, which will lead to the biggest investments ever in the history of the company. So far, a daughter company in Poland was established in 2012 with the production facilities being built as well as sales & purchase office opened in Shanghai the same year. Of course, Hydroline Oy will

continue to invest heavily in R&D and production development in Finland in order to make its operations more efficient.

C. Environmental Analysis.

Given the fact that Hydroline Oy is a Finnish based company with its headquarters in Silinjärvi, it is strongly influenced by Finnish market conditions as well as Finnish laws and legislations. The main challenge for companies, operating in Finland, comes from high costs for labor and natural resources as well as high taxation rates. The former one encourages companies to search more efficient solutions and better strategies in order to stay profitable and competitive. Moreover, the corporate social responsibility (CSR) obligations are becoming stricter and stricter with every day passing by, which demands a lot of investments from companies to be able to meet the requirements. On the other hand the expertise and education found from Finland is on the top level compared to many other countries.

Furthermore, outsourcing or shifting the production to low-cost countries within high-end solution segment is not possible as those countries do not have as high expertise as subcontractors in Finland. Of course, the service of low cost countries can be used but only for simple products, simple components, which do not affect the safety of the machine or have a very minor effect on its performance.

A strong national labor unions' influence is typical in Finnish industry. It is a big challenge for companies when e.g. it is not possible to make flexible agreements on job conditions with workers on the company level. This aspect is critical when choosing the country for establishing a brunch – labor unions should have moderate power, so that company can function without interruptions. Of course this includes that all the local laws should be followed and not to forget respect for people and humanity.

Obviously, company is not only influenced by national environment but also global social, political, economic and cultural trends. Economic crises, production shifting to low-cost countries, currency and labor market fluctuations, and active acquisition processes challenge companies every day.

Hydroline Oy has chosen Poland for building a daughter company. The main reasons for the investment are the location/proximity to customers and the cost structure for building low/mid-end products. Also the level of expertise was important.

D. Definition of a problem.

Many family owned businesses, as Hydroline, along their way face the problem of communication. It usually starts at the point, where a founder of the company, creative and skilled professional with bright ideas, doesn't know how to communicate them to others and hand down his craftsmanship skills to next generation. This minor miscommunication continues

to snowball through years and results in a serious internal and, consequently, external communication problem. Unfortunately, Hydroline Oy wasn't any exception and had to deal with both. But since "from inside out" is a wiser approach than the opposite, solving internal communication issue is paramount.

What is, in fact, internal communication? The multifaceted and potentially very broad nature of the term has resulted in the existence of many different definitions (1). It varies significantly depending on a context, researcher's/author's perspective and even the form of the word – singular or plural (communication or communications). In the frame of Hydroline case, however, internal communication stands for a flow of information and ideas horizontally (employee to employee, department to department) and vertically (manager – employee, board of directors – department etc.) within a company. Also, by internal communication we imply development of a "common" language, by means of which "management talk" can be easily understood by those who will act upon it and vice versa.

In order to function successfully and build strong, long-term oriented relationships with external world, a company should primarily develop and establish stable, efficient and effective inner processes. One of the most crucial processes is internal communication. It "is vital to success and when done well can provide strategic advantage through aligning employee efforts, sharing knowledge and engaging their passion" (1), because an informed and engaged workforce produces better results (2). But internal communication is not about just "bolstering the bottom line" (1): it can assist in numerous areas, which the health of organization depends on. For example, company's "workforce can serve as ambassadors in both positive and negative aspects. Poor handling of complaints regarding racial, sexual or age-related harassment and discrimination have often found their way to an employment tribunal. An internal communicator with the ear of senior management can sound the alarm or at least advise on how to communicate an effective solution (1). To conclude, an organization can benefit from internal communication in many ways:

- Employees and partners get better understanding of organization, its strategy and objectives
- Mutual feelings of loyalty and interest towards company
- Constant, fluid flow of information and ideas within company
- Effective communication both horizontally and vertically
- Identification and prevention of possible problems and conflicts on early stages
- Evolvement of team values, labor etiquette, and confidence in self-expression
- Improvement of external communication

Numerous positive effects of internal communication on organization cannot be overestimated. Obviously, its absence leads to the very opposite situation, where partly Hydroline Oy found itself.

The company has three departments: office, technical department and production side. In other words, within the company three different climates, ways of thinking and types of needs exist.

To get maximum of each and achieve synergy, it is crucial for the company to understand underlying mechanisms of every department and view each of them not as independent unit but interdependent and make them willing to cooperate, share ideas, and suggest solutions; that is to say, a company should facilitate an internal communication. Unfortunately, theory doesn't always meet reality, and internal communication did not take place at all or was inefficient in a company: engineers were not eager to initiatively communication and they only concentrated to work at their computers; misunderstanding between workers and "white collars" was interrupting order-action chain; bright ideas and valuable observations of employees were put off in a drawer. Not that the company aimed to **make** people express themselves, it wanted to **encourage** them to do so. But before solid reasons should be provided, which are usually stated in company's values, mission & vision, and strategy. An urgent action needed to be taken.

E. Guidance to solution.

Internal communication (IC) is crucial for any company. It serves as an effective tool to:

- create competitive differentiation
- developing new markets and products
- reducing costs and streamlining processes
- restructuring, integrating and acquisition, making a merger work, or divesting a non-core business
- redefining the roles of corporate center and divisions (3)

Many of mentioned above objectives coincident with Hydroline's ones. The company is seeking a stronger position in the existing markets as well possibilities for market growth internationally; it is constantly working on competitive advantage development and cost-efficient solutions.

However, to develop the system of internal communication, which will work, is not an easy task to accomplish. There are several important aspects to be taken into consideration along the way:

- Internal communication is not an independent process. It is strongly aligned with company's individual business strategy.
- IC is a responsibility shared by everyone in the hierarchical ladder from employee to CEO.
- IC can be only built on the base of human values.
- External and internal communication should walk hand in hand, without contradictions e.g. employees should be treated in a company the same way they are encouraged to treat clients.
- IC is evolving process. It starts from affecting positively an employee as an individual, who is able to produce a valuable output. Only when individual level is reached,

organizational level follows, bringing organizational output – a sum of individual outputs.

As mentioned above, internal communication is strongly connected to company's strategy- So, Hydroline decided to start from the very beginning, step by step, doing systematic work. First of all, the company had to answer the questions on its mission, vision, formulate its business strategy. Where the company was going and what it wanted to be; what the things to be improved were and by which means; what the objectives and long-term targets were – all these matters had to be addressed. Secondly, Hydroline had to find the ways to communicate this to each and every employee, make them understand and feel involved in a creation process.

First of all, Hydroline's top management made a basic SWOT Analysis to see the situation of the company as well as conducted a survey on how employees see the company. Afterwards, everyone was involved in a creation process, starting from production workers to "white collars". As a result, tones of papers had to be proceeded, and extracted information became a basis for Hydroline's mission and vision, core values and value promise. Moreover, business strategy was clearly outlined and stated. However, one of the most important aspects about this work was that it resulted from of a common effort and contribution; every participant felt involved and committed.

Nowadays, the problem of internal communication is still not solved completely. Interaction between departments is still sometimes a challenge, which the company is striving to solve. Meanwhile, Hydroline Oy is building "a war room", – a concept in project management – which, hopefully, will improve the situation. The idea behind this is having all the project information and people in one place, allowing the free and frequent flow of information. The benefits of this are pretty obvious but include rapid identification and resolution of issues, increase in trust and better working relationships, team focus.

F. Analysis/discussion/reflection

The problem in the company case is related to internal communication. The case reveals the importance and benefits of the process and gives a number of ultimate requirements for its development and implementation. Furthermore, it gives practical tips and background information on why and how to use them. Moreover, a reader gets an understanding of strong interdependence between company's business strategy and internal communication as well as the ultimate role of staff members in both of them.

The main principle of solving internal communication problem at Hydroline was playing "open cards" and bringing all possible questions, doubts, and suggestions to the table to be discussed together. This approach had also a positive impact on external communication e.g. with partners and customers, which is not surprising as both types of communication walk hand in hand. Hydroline Oy figured out absolutely right that to solve communication issue one actually needs to communicate, basing upon desire to listen, understanding and creativity. What is more, the

company did understand a power of common effort without forgetting a value of an individual employee at the same time. Building a “war room” can be considered a smart move as well. However, the fact of its existence doesn’t necessarily mean it will function as expected since employees may not be enthusiastic to use it. Therefore, Hydroline should launch a “promo campaign” or educational sessions to explain objectives of “war room” and encourage its workers to test this innovation. Finally, a credit should be given to foreseeing managers of the company, who took all the initiative in their hands and with their own example showed what commitment and ambition are.

More possible suggestions for Hydroline Oy what it could include:

- Appointing a responsible for internal communication in the company, or, better, founding a communication department. If this is not affordable, Human Resource department could be delegated this mission.
- Elaboration of a consistent program, which will not be just effective but measurable.
- Conducting educational and practical sessions and seminars to help developing employee’s personal competences and boost team spirit.

Assignments

- What else? What are your suggestions in this case?
- Analyze the internal communication in your company.
- In your company, do you have similar problems in internal communication as in this case company?
- What can you learn from this case of the internal communication for your company?

Internal communication is a long-term objective. Thus, it takes time to reap its first fruits as well as it takes constant organizing, monitoring, analyzing and reorganizing of the process. All these should be fueled with enthusiasm, creativity and patience of employees, but especially, managers, who are going to direct and guide the process.

G. References

www.hydroline.fi

Literature list/ recommended reading:

1. Antonio Ragusa & Ventus Publishing Aps, 2010. Internal communication management. Individual and organizational outcomes.
2. Lyn Smith with Pamela Mounter, Second edition, 2008. Effective Internal Communication.

3. Bill Quirke 2008. Making the connections. Using internal communication to turn strategy into action. Published by Gower Publishing Ltd.
4. Effective internal communication. 2005. Chartered Institute of Public Relations. Wales.
5. Bell, M. P 2011. Diversity in organizations. Sage: London.
6. Brooks, I. 2003 or later. Organisational Behaviour. Individuals, Groups and Organization. Harlow: FT Prentice Hall.
7. Harzing, A-W. & Pinnington, A. 2011. International Human Resource management. Sage: London. Academic articles.
8. Eisenberg, E. M. & Goodall, H. L. 1997. Organizational Communication: balancing creativity and constraint. Boston: Bedford/St.Martin's.

This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.