

# Economic sustainability in forest industry

Prof. Susanna Laaksonen-Craig  
University of Toronto

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# Outline

- Economic sustainability from a business perspective
- Economic performance in forest industry globally
- Future: interplay between economic, environmental and social sustainability issues in the companies

# Economic sustainability

- Economic sustainability is one of the pillars of sustainable development
- Economic sustainability requires that economic benefits exceed or at least balance costs.
- Another accepted definition of economic sustainability is maintenance of capital, or keeping capital intact
- Use of economic performance as a proxy

# Economic performance

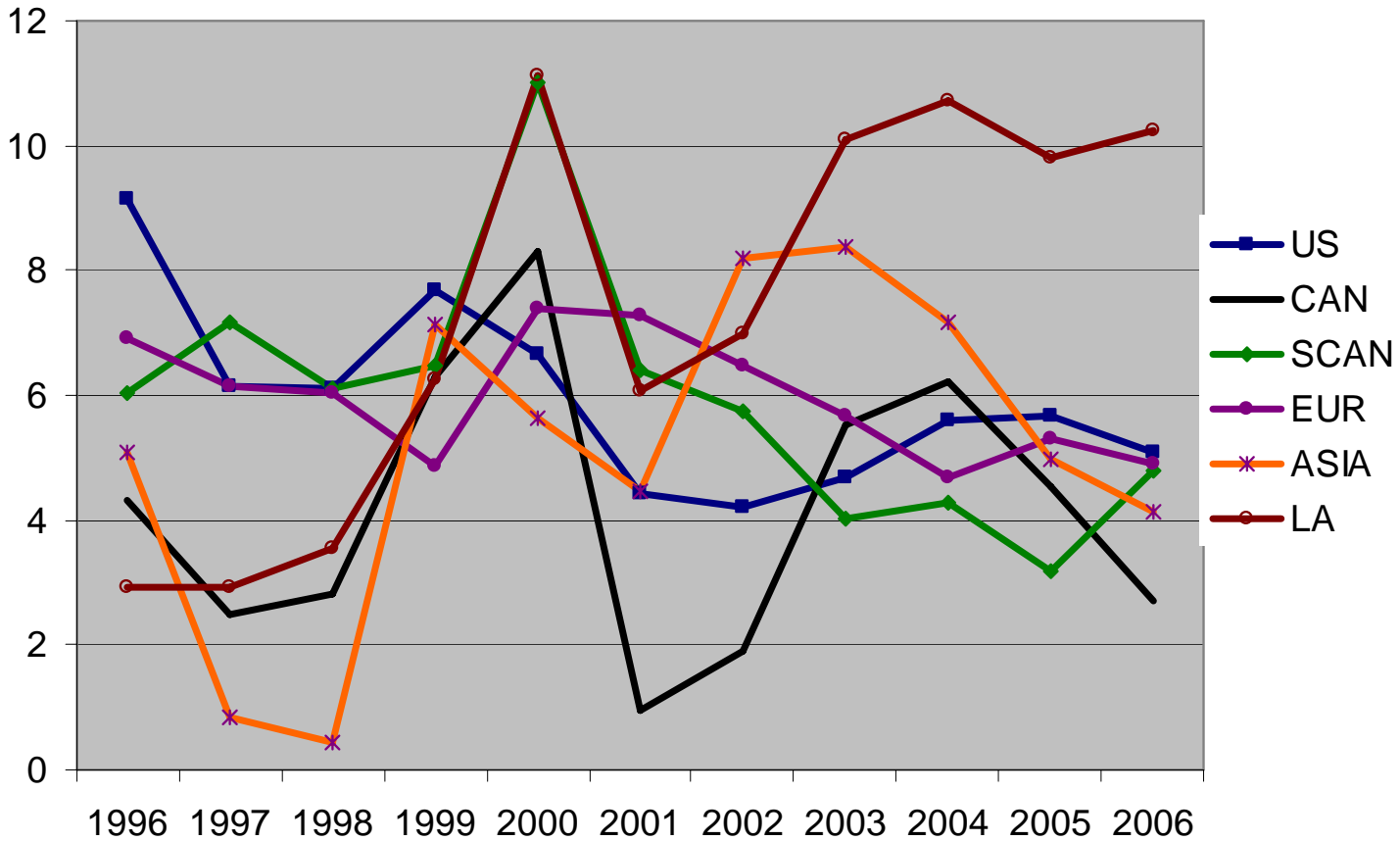
## ■ PwC Top 100 Companies

	2002	2003	2004	2005	2006
Turnover	\$295.5	\$304.3	\$328.2	\$337.0	\$354.6
Operating profit	\$22.0	\$19.5	\$24.5	\$21.9	\$23.7
Net Income	\$3.5	\$7.8	\$13.7	\$9.3	\$14.3
ROCE	4.3%	4.2%	5.3%	4.9%	5.1%
Capital expenditures	\$16.7	\$16.0	\$19.3	\$20.6	\$21.4

US \$ billions

# Economic performance

Geographic ROCE % for top 50 companies 1996-2006

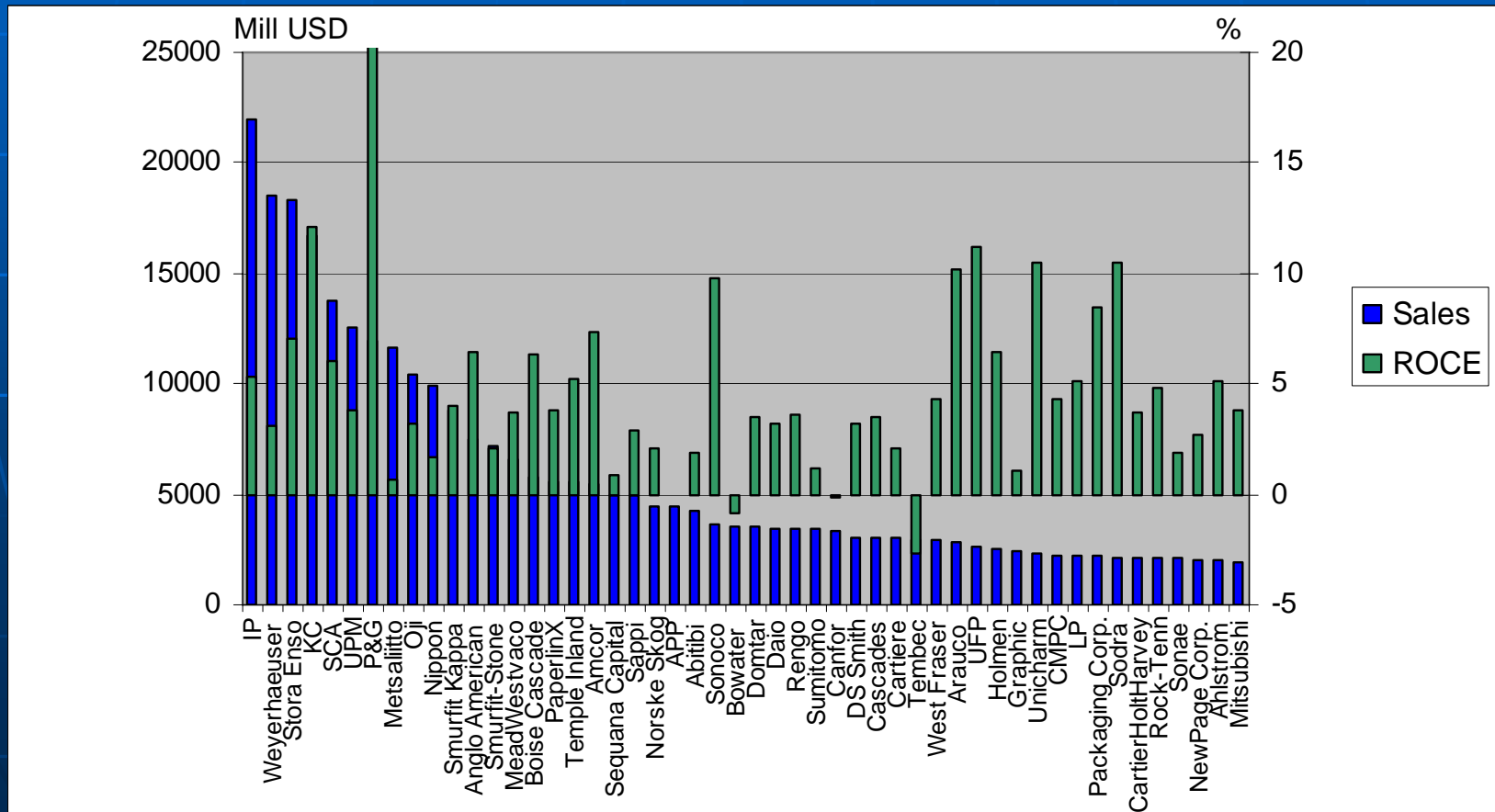


# Economic Performance

- What determines the performance?
  - All companies are significantly influenced by the global macroeconomic conditions
    - Lately declining real prices, increasing costs, capital intensity
  - Some are more immune than others
    - Size
    - Product portfolio
    - Scope/Markets

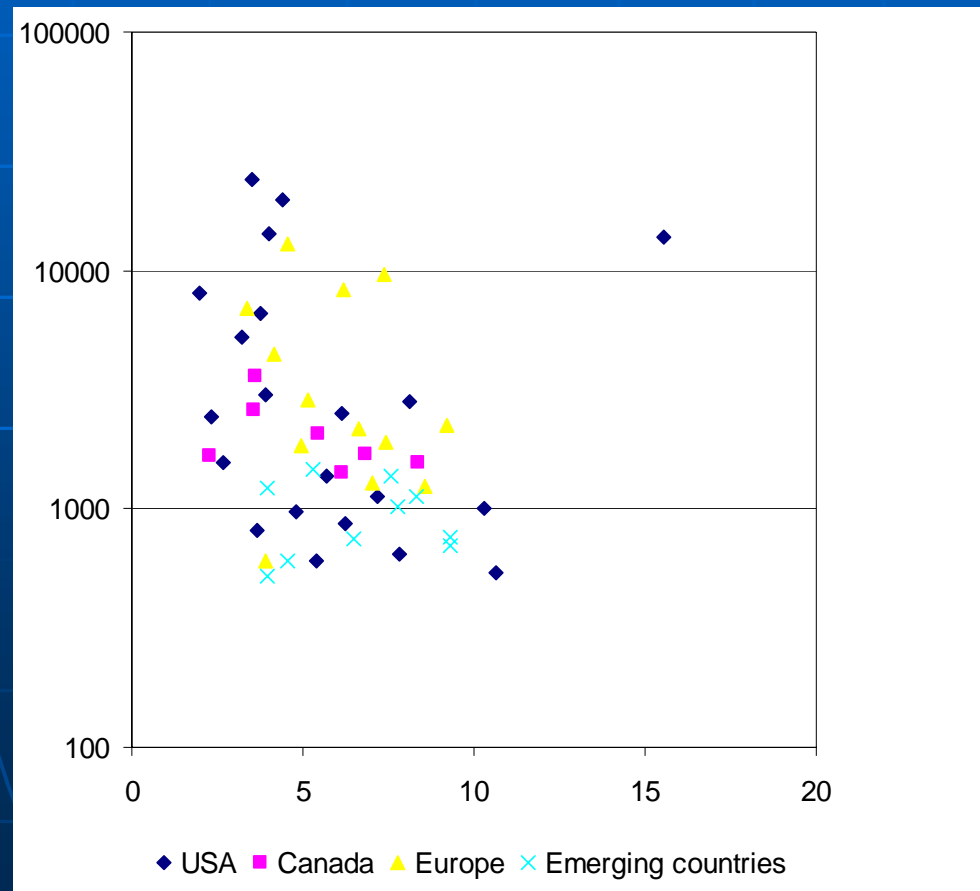
# Economic performance - Size

Sales and profitability of the top 50 companies in 2006



# Economic performance - Size

10-year average ROCE and company turnover of top companies by four regions 1996-2005



# Economic performance - Size

- No statistical evidence of relationship between sales and profitability despite expected economies of scale
- The “right” size seem to be more profitable on average
- Emerging country producers, for example, have been performing on par or better than the largest firms

# Economic performance – Product portfolio

- Wider portfolio doesn't necessarily increase profitability
- Niche producers perform often well
- The position in a value chain has an impact on profitability; can the company add significant financial value in the chain?

# Economic performance - Scope

- Global companies don't necessarily perform better; risks haven't balanced out
  - The synergies of global M&As might have been overestimated.
  - The strategic fit between merging companies might have been lower and the challenges of successfully integrating distinct company cultures greater than originally anticipated
- Degree of Internationalization vs. profitability

# Economic performance - Scope

- Results for Finnish companies indicate that
  - Internationalized companies outperformed non-internationalized ones 1996-2003 in terms of solvency (Equity Ratio-%)
  - Depending on the business cycle, internationalized firms outperformed non-internationalized firms with respect to short-term measures such as Quick Ratio, while the converse was true for profitability measures like ROI-%.
  - Degree of internationalization, as measured by share of foreign employment, was found to have a positive impact on liquidity and profitability of firms.

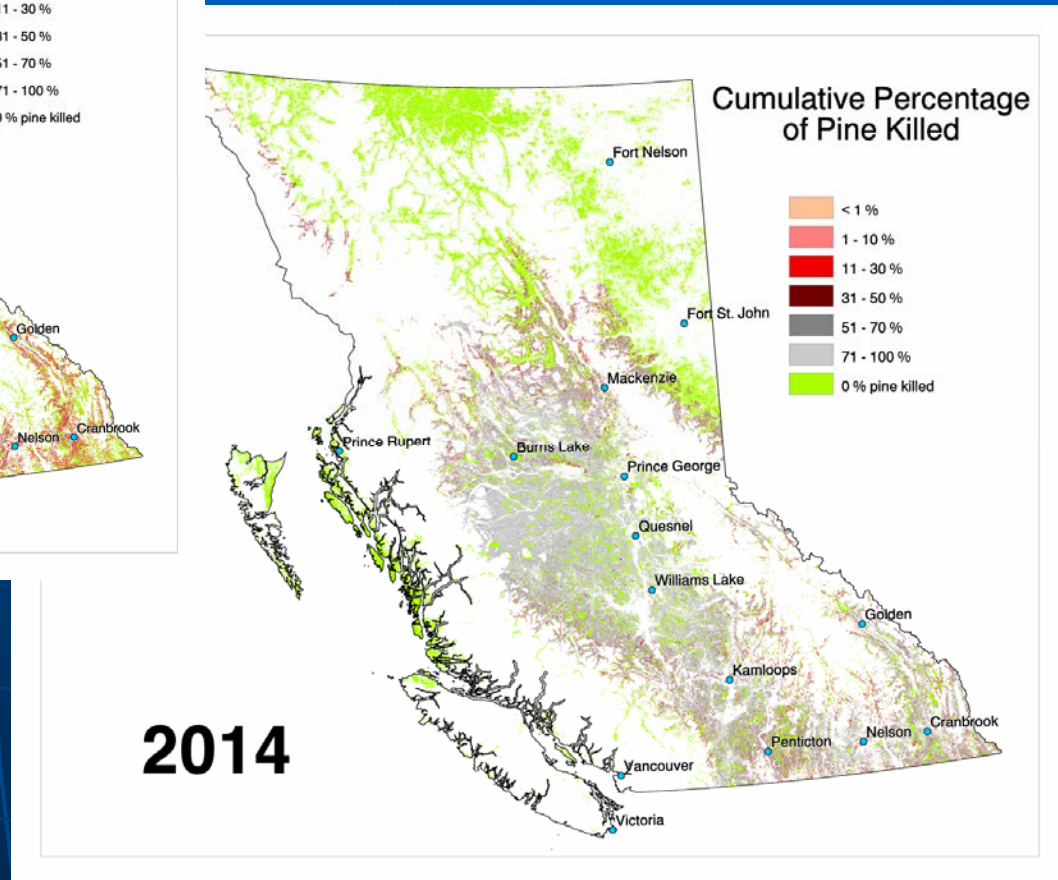
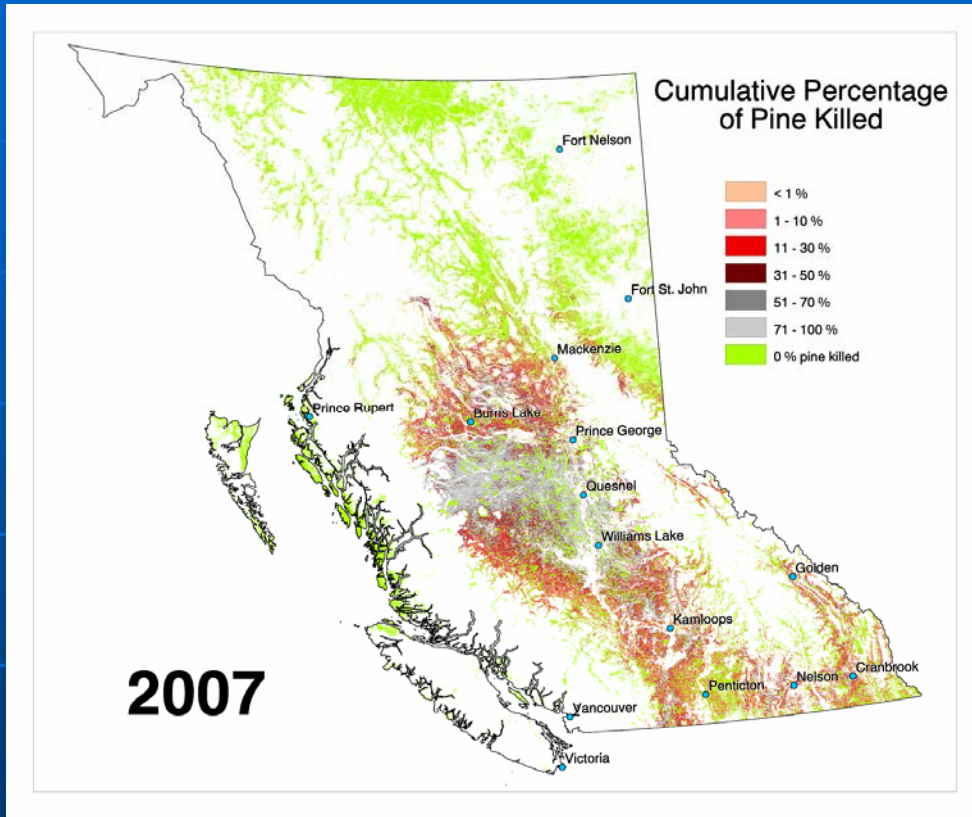
# Economic performance – Profit persistence

- In general, the most successful firms have been able to protect their high profit rates over time whereas the least successful firms have made little progress to improve their situation, and equalization of profit rates has not occurred across firms
- Overall, though, no firm specific profits among the largest forest industry companies globally. However, the location where the company is headquartered, and in many cases have a significant percentage of its production capacity, seems to have an impact on profit persistence.

# Future: Corporate sustainability

- Economic performance is only a part of the big picture
- The goal is to maximize the economic performance and the shareholder value while improving environmental performance and increasing social contributions to local communities

# Sustainability challenge –BC Interior



# Sustainability challenge –BC Interior

