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Does corporate responsibility matter in the global competition of the forest-based industry?

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Outline

- Development & alternative theoretical views on CR
- Insights from the forest-based industry:
 - *Emerging common themes of CR activities*
 - *Previous literature*
 - *Industry analysis*
- Conclusions & suggestions for future research

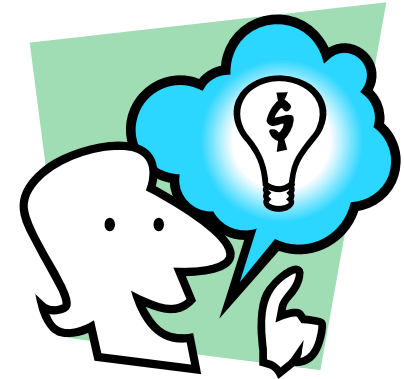


Is there a business case for CR?

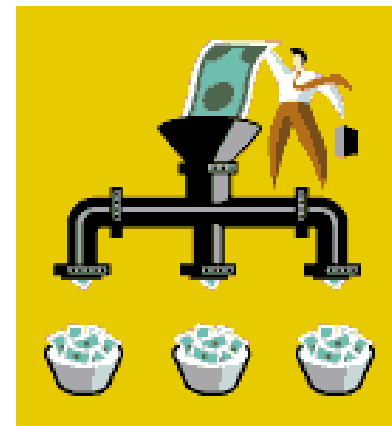
- **NO:** the “*trade-off*” hypothesis
- e.g. Friedman (1970)



- **Maybe:** the “profit-maximizing” conjecture
- e.g. Drucker (1984)



- **YES:** the “*corporate social impact*” hypothesis
- e.g. Cornell & Shapiro (1987)



What is a CSR strategy?

- It is the **choice** of a company to act in a socially responsible manner to protect & enhance the various stakeholders that have an interest in the company, the community in which it operates, the environment which surrounds it & society

- **Whom** the firm is actually serving?

the shareholders? or

...a wider range of publics?



stakeholder theory serves as a suitable framework (Freeman 1984)

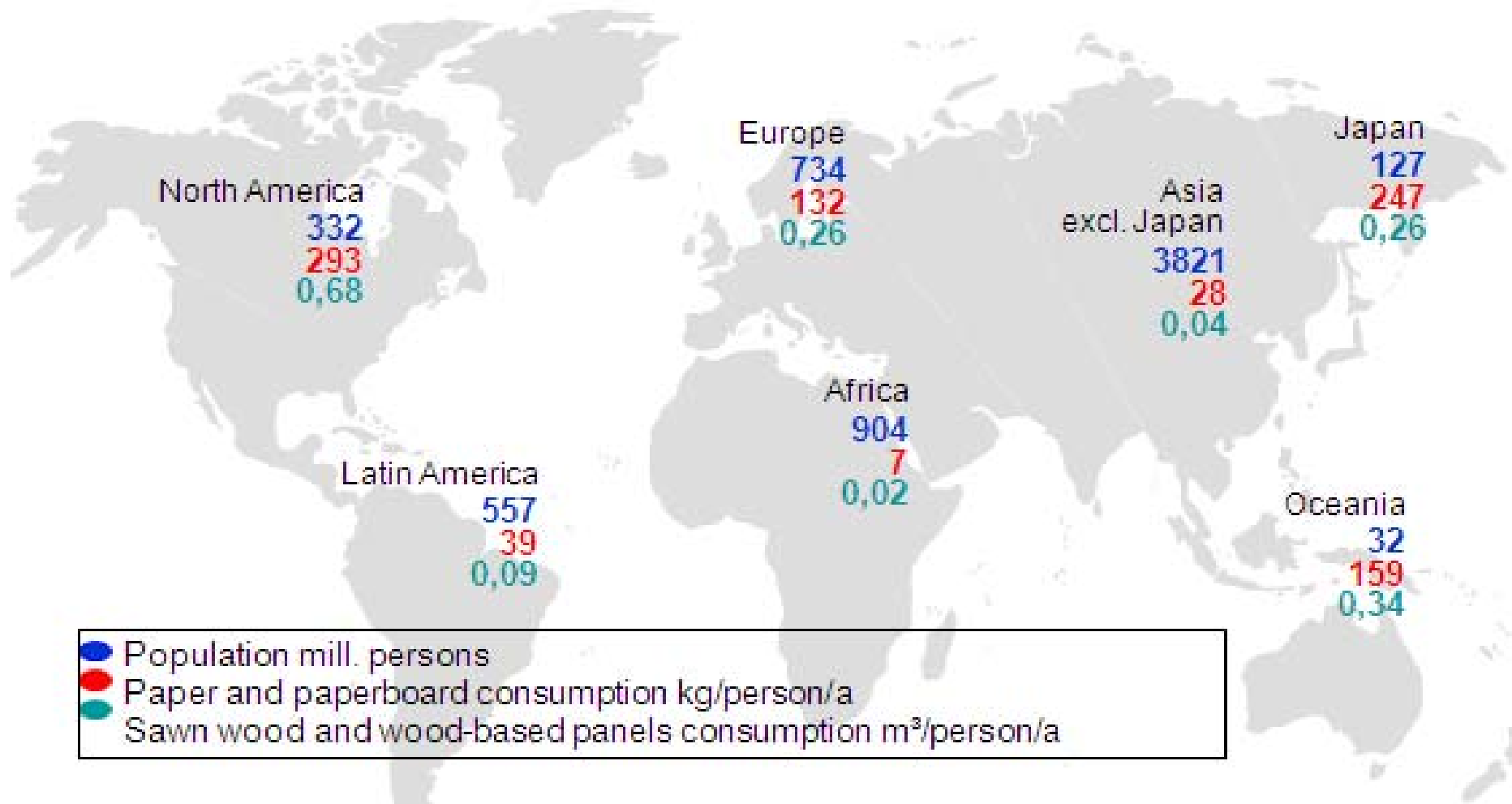
- Strategic CSR (Porter & Kramer 2002, 2006)

Responsibility & performance: other benefits of becoming a best practice organisation?

- **Proactiveness:** first-mover advantage?
- Attracting and retaining best **personnel**
- **Positive public image** + indirect financial gain over long term
- Fostering communication and collaboration among **multiple interests** leading to:
 - *More sustainable management practises*
 - *Effective business strategies*
 - *Mutually beneficial relationships with external stakeholders*
- **Strategic** opportunity to develop **partnerships** with other stakeholders (trust and reciprocity), reducing the likelihood of costly and protracted disputes
- Exchange of information through collaboration

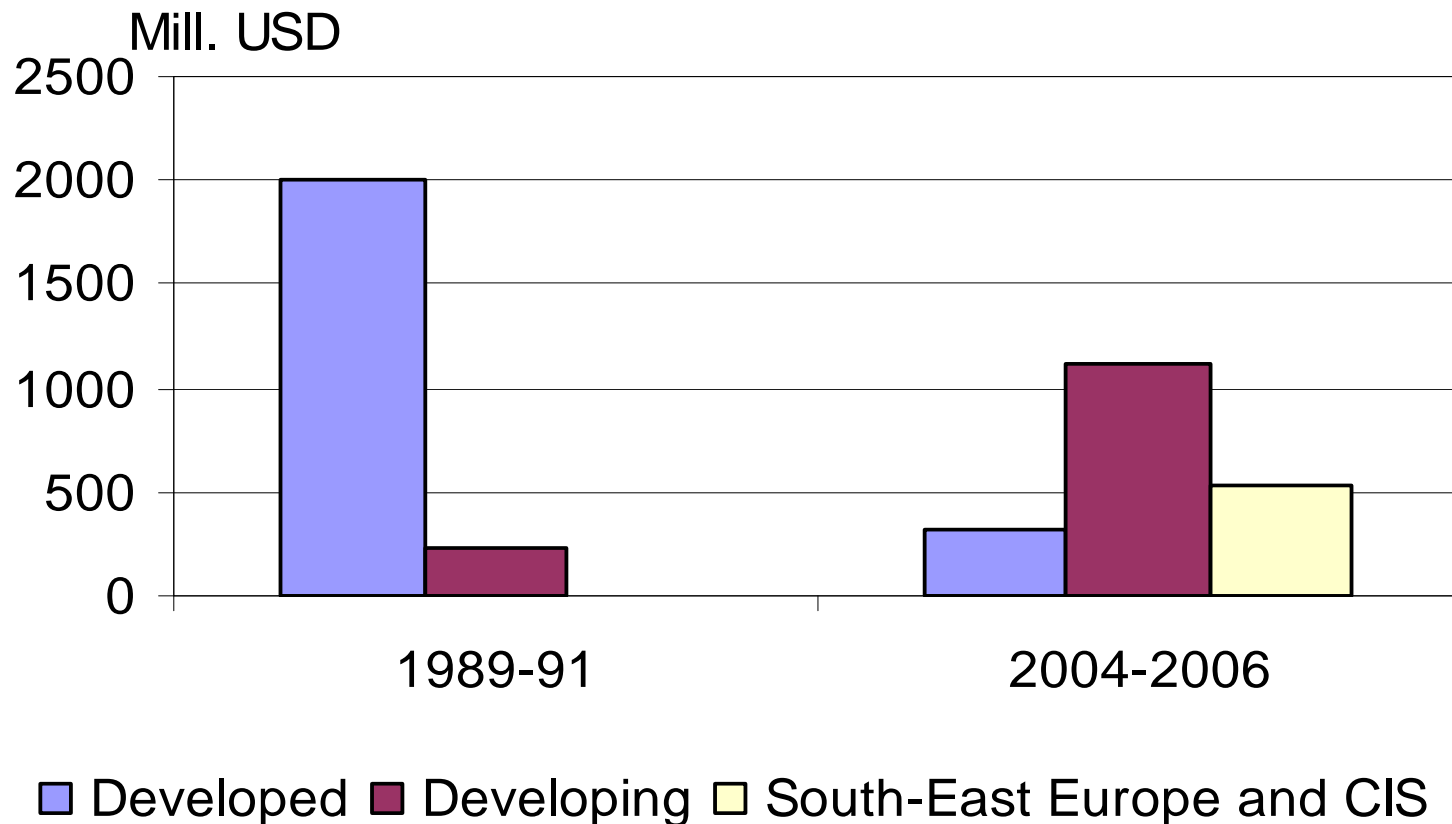


Population and global consumption of forest industry products



SOURCE: RISI Inc.: Paper, FAO: Sawn wood and wood-based panels, 2005

Contextual situation in the forest-based industry: change in global FDI



Source: UNCTAD 2008 World Investment Report

Emerging common themes among the industry



illegal logging



water



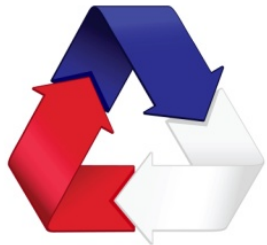
conservation



air emission



biodiversity



recycling



employment



clear-cutting



Environmental friendly
technology



energy

Studies on CR in the forest-based industry 1/2



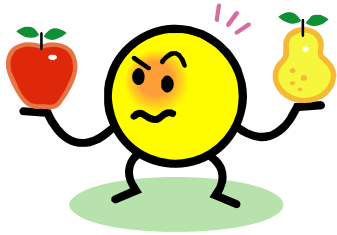
- **Regional comparisons:**

- Näsi et al. (1997): Managers in 4 largest companies in Finland and Canada responded variably to the shifting demands of the most important stakeholders
- Mikkilä et al. (2005): CR was based on legislation, regulations and standards in Finland, Germany and Portugal, while it was understood as social duties of business enterprises in China (in Suzhou area)
- Panwar et al. (2006): CSR in European companies has been primarily driven by ethical factors, whereas North American industries have been more strongly driven by legal considerations
- Mikkilä & Toppinen (2008): The dominating North American-Nordic type of CR leaves little flexibility for company-specific diversification in reporting
- Panwar & Hansen (2008): Economic, environmental & social issues & their management differ between the US and Indian companies

- **Company size and structure:**

- Vidal and Kozak (2008b): The degree to which companies emphasize certain CR activities is determined by the specific contexts companies operate in and the priorities they establish

Studies CR in the forest-based industry 2/2



- **Case studies:**

- [Mikkilä et al. \(2005\)](#): The acceptability and responsibility of a company is understood in various ways even within one single company

- [Joutsenvirta \(2007\)](#): Different ways of communicating CR may hinder or facilitate efforts to steer corporate actions into a more balanced relationship with nature & society

- [Kourula and Halme \(2008\)](#): Compared with philanthropy and CR integration, CR innovation seems to have the highest potential in creating local income-generating mechanisms

- **CSR & financial performance & competitive advantage:**

- [Halme & Niskanen \(2001\)](#): Environmental investments create goodwill for the investing firms & thus not negative NPV investments

- [Dyke et al. \(2005\)](#): participating in collaborative environmental management initiatives (EMIs) is financially beneficial because of its corresponding positive impact on PR

- [Kärnä et al. \(2003\)](#): Proactive markers have the highest potential in implementing environmental marketing voluntarily and seeking competitive advantage through environmental friendliness

- [Kourula & Halme \(2008\)](#): Compared with philanthropy & CR integration, CR innovation seems to have the highest potential in creating local income-generating mechanisms

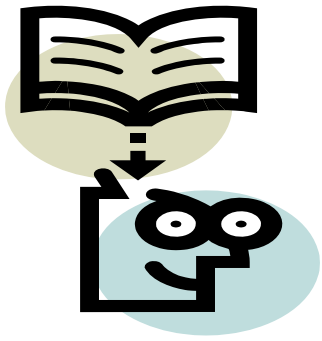


The contextual factors either impeding or enhancing the impact of CR in the forest-based industry 1/2

	Impeding factors: "CR has no true impact or even a negative impact"	Enhancing factors: "CR does matter"
Industry structure	<ul style="list-style-type: none"> • Still fragmented • Dominant SMEs in some subsectors • Lack of "responsible leadership" icon companies 	<ul style="list-style-type: none"> • A high environmental impact sector through its resource base • Progress in industry consolidation with increased media exposure
Internationalization of firms	<ul style="list-style-type: none"> • Divergence in regional and cultural management • Continued off-shoring of production to low-cost regions 	<ul style="list-style-type: none"> • Increased exposure to a broader set of stakeholders led by the increased internationalization and expansion to emerging markets • Globalization and rapid transfer of information
Customer base	<ul style="list-style-type: none"> • Low or non-existent price premiums on certified forest products • Dominant industrial customers 	<ul style="list-style-type: none"> • Growth (albeit grow) of ethical consumers
ENGO and other stakeholder pressure	<ul style="list-style-type: none"> • Resource-intensive (e.g. land) sector • Continued conflicts of local land use 	<ul style="list-style-type: none"> • Firms' efforts to avoid legal, moral and economic sanctions (e.g. adopting industrial standardization and certification, participating in international processes and networks (i.e. GC, WBCSD))

The contextual factors either impeding or enhancing the impact of CR in the forest-based industry 2/2

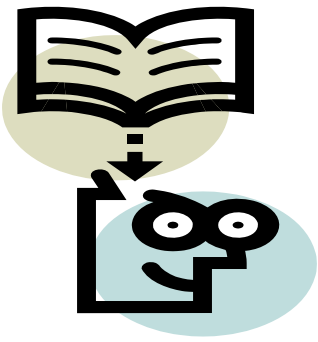
	Impeding factors: "CR has no true impact or even a negative impact"	Enhancing factors: "CR does matter"
Investors	<ul style="list-style-type: none"> • Limited level of ethical investments • Positive short-term stock market reactions to employee layoffs 	<ul style="list-style-type: none"> • Positive impact of CR on long-term financial performance • Growth (albeit slow) of ethical investors
Disclosure & CR practices	<ul style="list-style-type: none"> • Uneven balance between economic & environmental disclosure as compared to social disclosure? • Divergence between firms' preaching & their actual performance 	<ul style="list-style-type: none"> • Improved quality of CR disclosure and adoption of more holistic approach by firms • Adoption of certification schemes (e.g. GRI, FSC, PEFC)
Source of competitive advantage	<ul style="list-style-type: none"> • Low-cost strategy dominating in commodity products 	<ul style="list-style-type: none"> • Rise of intangible resources as a source of competitive advantage (e.g. reputation and brand management, quest for skilled labor)



Conclusions & managerial implications 1/2

- **CR matters in the global competition of the forest-based industry, because**
 - **mutually interactive & beneficial interdependence** between business & society
 - CR embraces **all aspects of business**
- **CR does not repeal the laws of economics, because**
 - CR helps preserve **societal legitimacy**
 - CR helps prevent **moral**, legal & other **sanctions** by taking initiatives
 - CR enables companies to reflect the **needs & concerns** of various stakeholders
 - CR offers a potential edge of **differentiation & competitive advantage**
 - CR helps maximize **financial viability** over the long-term?.





Conclusions & managerial implications 2/2

- Main challenges for companies:
 - The interaction of stakeholders with divergent interests provides both **opportunities & threats** with respect to how companies position themselves
 - In order to **retain** their **legitimacy**, companies are required to **take a CR perspective**
 - Company managers need to **rethink & redesign** their fundamental **business models** to translate their rhetoric of CR & sustainable development into actual business practices.





Thank You!