

**RATES OF RETURN AND
RESPONSIBILITY:
CONSIDERING MORAL ISSUES IN THE
DOWNTURN OF THE PULP AND
PAPER INDUSTRY IN FINLAND**

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Profitability (revenues > expenses)

is a legitimate concept in market economies.

Cornerstone of *corporate governance* and
economic sustainability

Responsibility (not simply: right actions > wrong ones)

means "carrying one's duties and obligations in an accountable way", but it also "contains doing that without being ordered" (Oxford Advanced 1974)

The cornerstone of *social sustainability* and
corporate (social) responsibility, CRS or CR

But..

- Profit maximisation:
max (revenues – expenses)
- Responsibility maximisation:
max (right actions – wrong actions)

Return on capital employed (ROCE)

- ROCE relates earnings with the amount of the capital involved
- ROCE = Earnings before interest and taxes (EBIT) / difference between total assets and current liabilities

$$\text{ROCE- \%} = \frac{\text{Net revenues}}{\text{Net assets}} * 100$$

(Diesen 2007).

The ethical stance (Johnson and Scholes 2003) **(1)**:
the extent to which an organization will exceed its minimum
obligations to the stakeholders and society at large

- 1 Lowest level: business only serve *the short-term interest of shareholders*. They will only meet the minimum of legal and regulatory constraints
- 2 Level: a recognition of the *long-term financial benefit to the shareholder* of well-managed relationships with other stakeholders.

The ethical stance (Johnson and Scholes 2003) (2):

- 3 level: Stakeholder interests and expectations should be more *explicitly incorporated in the organisations's purposes* and strategies
- 4 Highest level: Companies having purposes that are concerned with *shaping society*, financial considerations secondary.

ADDING to Johnson and Scholes (2003)

- 0 level: Irresponsible profit maximation (non-ethical stance), "Plunder economy"

Moral issues and questions?

1. Adopting shareholder value as a business principle in late 1990s meant a higher profitability target (ROCE 13%, ROE 12%) and increased benefits to the stockholders

Moral aspects and questions:

- a) In highly competitive mature industry this mainly can occur at the cost of other major stakeholders.
- b) The related incentive systems were focused on top management.
- c) Did it lead to excessive risk taking, which later brought massive losses?

A view on the shareholder value (2)

”distribute and downsize”

d) ”.. the pursuit of shareholder value may be an appropriate strategy for running down a company – and an economy.” (Lazonick and O’ Sullivan 2000)

e) The decreasing investment level in Finland and the recent mill closures can be seen in this light but globalisation strategies and investments elsewhere does not fit into that picture.

2. Questions related to the closure of Kemijärvi pulp mill

- f) A profitable pulp mill closed, employees claim that profitability target given for the continuation.
- Profitable but not enough?
- g) The drastic customs tariff increases scheduled for the roundwood exports from Russia as a reason - restructuring wood supply in panic or using the Russian card?
- h) Equality between Sweden and Finland?
- i) Environmental campaign in the background?
- j) Transparency declaration – the test not passed.

3. Questioning to and for the state and communities

- k) Welfare state weakened yet able to carry some of its responsibilities due to the mill closures – but why it is weakened?
- l) Has the state as owner its own voice? The other owners seem to have.
- m) After transferring the majority of the human costs to the state, the industry has presented several claims to the state to improve their competitive positions – if not the contents the tone of these claims has been morally doubtful
- n) Schlossberger (1994): due to the opportunity capital (e.g. infrastructure) “society is a shareholder in every business venture, though not the same type of shareholders as stockowners”.

4. Who carries the costs of strategy failures?

- o) Not the strategists themselves, inside and outside the corporations

5. The moral responsibilities of the trade unions and forest owners ?

- p) In 2005 a long strike became expensive for the pulp and paper industry- but more so afterwards to the union members.
- q) Is the role of forest owners only that of the maximizing the stumpage income? Do not also forest owners owe something to the society after the decades of substantial state subsidies?

6. *The moral roles of the researchers and the scientific community?*

Two small and different cases and questions:

- r) Did the appeal of c. 200 researchers to save Lapland's remaining old-growth forests legitimize the Engos' campaign and, if so, indirectly played - or was used to play- a marginal and largely unintended role in the Kemijärvi pulp mill case?
- s) An early study in FFRI (Hetemäki 1999) on the adverse impact of ICT on paper markets was omitted by the pulp and paper industry, which seemingly relied more on the consultant forecasts.

7. The media, the moral messages and moral communities

- t) The media has focused moral criticism to the weak social responsibilities of pulp and paper industry, and discussed its strategy failures.
- u) The arguments of industry are also understood, in particular in business media, most vigorously in past promoting shareholder value ideology,
- v) **Among the many moral communities involved in what is going on in the world, probably most important is the moral community of the business and financial elites, whose values, principles, and ideologies are largely based on shareholder value, self-interest, and individual liberties.**
- x) Yet individual morality matters, and the responsibilities, obligations and dilemmas of the CEOs making difficult hard decisions need not to overlooked or oversimplified.

8. A pre-diagnosis

- y) The responsible Nordic model of pulp and paper has not yet come to the end of their path. But – *and this is a hypothesis to be tested* - they are in the process to become the sub-contractors of added value to the opaque, multilayer and opportunistic system of financial governance of the world (Saastamoinen 2008).
- z) Freed from the excessive financial pressures from above, global forest industries may be seen in the forefront of future sustainable development (Saastamoinen 2009).

9. The medicine

- å) During the downturn and crisis it may be seen impossible to have profitability and responsibility balanced at any rate.
- ä) The only sustainable strategy is the simple morality of trying to share the burdens of difficulties within the company and between it and its stakeholders in a just and responsible way?
- Ö) Thank you!

