

**Rhetoric or Reality? Corporate Social
Responsibility Reporting in Globalizing
Forest Industry Companies: A Case Study**

Master's thesis

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Corporate social responsibility (CSR) within forest industry has become an important question since many forest industry companies are downsizing their work-force in their home countries and shifting production towards countries with lower production costs. Emerging criticism forces companies to improve their dialogue with their stakeholders. This is carried out by making their operations more transparent and using reporting for this purpose. The aim of this case study is to evaluate and compare the contents of eight largest European forest industry companies' reports and reflect the results on the criticism that the companies have recently faced. The research questions are:

- *How do the companies appear to realize the bidirectional relationship with the surrounding communities in their reporting of social responsibility issues, especially the ones that concern the employees?*
- *In which ways have the companies changed their social performance since moving their activities into new geographical locations, or have they?*
- *Is there a positive linkage between the internationalization and the economical performance of the companies?*

Since the reporting has become a stable part of companies' strategy in general, the results of this study and the ongoing societal debate indicate that there are some contradictories between the companies' public performance and the actual deeds. This case study is an attempt to reinforce the cross-disciplinary theories of CSR with a geographical approach and to utilize the discipline's deep knowledge about global processes.

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FOREWORD

This Master's thesis is a result of a coincidence, though a very lucky one. I was performing my traineeship at the European Forest Institute, where my task was to collect and to analyze data from corporate sustainability reports. Making my Master's thesis did not even cross my mind, until I was provided with the opportunity to prolong my traineeship and, since I had already collected the data and the topic interested me, I decided to continue my research. Thus, this thesis is a result of my four months working period in the headquarters of the European Forest Institute in Joensuu.

Establishing of this thesis was challenging in many ways and not least because the research was conducted in English; taking over the whole new world of business and economics was a stimulating task for a human geographer as well. Nonetheless, I feel very lucky of having so much support and help from my colleagues at EFI and my friends, of whom quite a many were at the same phase in life that I was.

I would like to appoint my warmest acknowledgements to Dr. Anne Toppinen who encouraged me to continue with my research and patiently provided her advisory during my stay at the EFI. I would also like to thank Dr. Ari Lehtinen whose support was crucial and Dr. Minna Tanskanen - without of whom I might have never had the opportunity to make this thesis. Thank you all!

In Joensuu, February 2008

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1. INTRODUCTION

1.1. Background

When Brundtland Commission launched its report *Our Common Future* in 1987, it started a period of sustainable development in every aspect of human activities. If not in practical sense, at least it started a wide societal debate about the ideology of sustainability. In a report of Brundtland Commission, sustainability was defined as "*development that meets the needs of the present without compromising the ability of future generations to meet their own needs*"(WCED 1987). The topmost issue in the sustainability debate has been the concern about the environment but the definition of sustainability also includes aspects of economic and social sustainability. Only recently the social aspect of sustainability has emerged since the environmental and economic issues have become more commonly accepted and largely carried out in different kinds of contexts and societies (Panapanaan et al. 2001, 11).

Although the concept of *corporate social responsibility* (CSR) is not a new phenomenon, it has become more and more important because of the crucial societal changes that have taken place 20th century onwards (Mikkilä 2006, 9). World has become smaller because of the development of the information technology. National boundaries have loosened as a result of globalization, increasing freedom in the movement of people, money and goods, and nonetheless common concerns about the environment. People from all over the world interact together like never before. However, free trade and increasing opportunities in the business world also create situations where there is need for control and developing tools for good corporate governance. Increasing size and power of globally operating multinational companies (MNCs) has brought forward questions about human rights, labour standards, child labour, corruption and trade agreements, especially when companies are operating in a countries of the developing world (Hawkins 2006, 12).

The concept of globalization is not easy to define because of its complex nature, causing different kinds of effects on both local and global scale. Different actors are involved in globalization processes having differentiating amount of resources, authority and power. The world is being built in a constant dialogue with these actors, competing against one another and changing the perceptions about how this should be done. Hawkins addresses that even though the business operation in a developing country led by large MNCs is often interpreted as exploitation in public, that is not necessarily the case. There has always been a division in a world between those who have resources and those that desire them. He also claims that it is a natural thing that countries are in different states of development and without a co-operation and trade, there would be no further development (2006, 10-11.). In some ways this might be true, but since the world has, fortunately, changed from the times of imperialistic colonialism, it is even more important not to take the unequal economic and social conditions as a natural, taken-for-granted issue.

Besides the fact that the implementation of CSR practices indicates good corporate governance, some authors believe that changing corporate culture can have positive effects on a societal change at large. Therefore, good corporate governance has a possibility to improve the quality of life for the individuals working for the companies and the communities, in which they operate. Socially responsible way of doing business can also contribute environmental awareness of the communities via education and research and therefore help to maintain local eco-systems vital and protected (Aguilera et al. 2005, 6).

1.2. Defining the concept of corporate social responsibility

When talking about responsibility, it is important to understand that it has something to do with morals and ethics. Usually a moral is understood as a notion of right and wrong. Notions change over time and can be different in different societies. Ethics can be understood as a societal debate about what is considered to be right or wrong, i.e. *moral*, and the debate can challenge and eventually change the current moral

notions. Law and regulations reflect current societal notions of morals, but it is important to point out that law is not the same thing as moral, even though these two things are highly dependent on each other. Responsibility for one's part requires power to choose to do or leave something undone, meaning that the action can be considered to be responsible only when it is committed on a voluntary basis. Morality can be understood as a code for human behavior that controls the way people interact with each other. It enables the functioning of society and like in any other human activity; moral notions are also present in the business world (Mikkilä 2006, 20-21; Rytteri 2004, 199-204.).

Tuomo Takala (1993) has developed three different business ideologies that reflect different views about the relationship between a business company and moral notions. Rytteri has continued the list by adding the fourth ideology (as cited by Rytteri 2004, 202-203). The following table (Table 1.) describes the basic ideas of each ideology through which a company can understand its moral responsibilities.

Table1. Ideologies of corporate social responsibility (paraphrasing Rytteri 2004, 202-203).

IDEOLOGY BASED ON OWNERSHIP	IDEOLOGY BASED ON STAKE – HOLDERS	IDEOLOGY BASED ON WIDE RESPONSIBILITY	IDEOLOGY BASED ON PROGRAMMATIC OWNERSHIP
Company's most important responsibility is to make business competitive and efficient. Company can have other social tasks only with terms of economic benefits.	Company takes general moral notions into account in business operations. Company acts as "good citizen" and if required, company goes beyond legal obligations. Aim is to ensure business continuity in long-term.	Company takes into account general moral notions and has also other ethical goals that do not aim only to maximizing of economic profitability (e.g. <i>The Body Shop</i> that aims at resisting animal testing in cosmetics).	Company does not particularly aspire to take moral notions into account, but enhances some ethical goal(s) that is assigned by one or more owners.

There are several definitions to be found from literature that refer to corporate social responsibility, for example corporate responsibility (CR), business ethics, corporate citizenship, responsible business etc. Basically, they all mean the same thing.

Because corporate responsibility consists of three dimensions (economic, social and environmental responsibility), one commonly used definition about the CR in literature is the *triple bottom line* (Elkington 1997).

Economic responsibility refers to taking care of profitability and competitiveness of the business. That includes ensuring that the business is efficient, profitable and creates value for shareholders in a way that respects the terms of sustainability. Social dimension refers to development of wealth for the people working in the companies and for the society in general. Social responsibility includes several aspects from human rights to the health and safety of the workforce. Ecological responsibility assigns to taking care of sustainable use of natural resources, so that the generations to come have equal opportunities to utilize them as we do. It also includes the protection of air, water, soil and biodiversity. Elkington addresses that these three elements are tightly bonded together as the communities are dependent on economics and economics are highly dependent on global ecosystems (Elkington 1997).

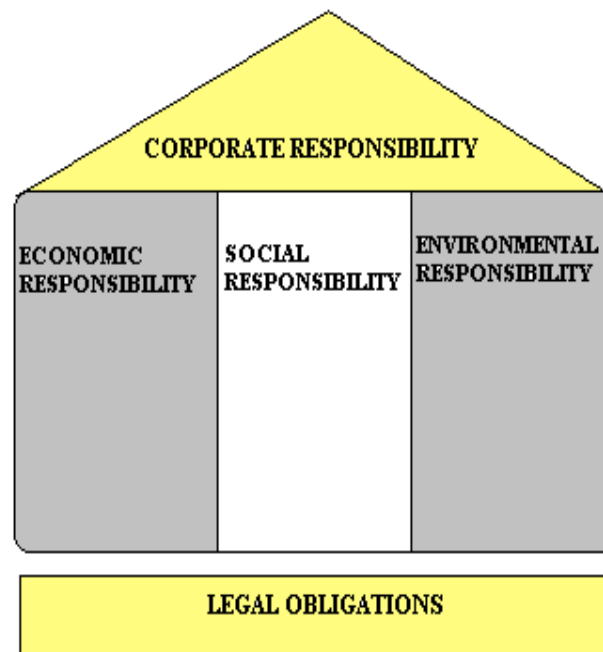


Figure1. Holistic responsibility model for a company (paraphrasing Mikkilä, 2006).

Also according to Zadek, it is important that these three dimensions are understood as interdependent parts of sustainability (2007, 131-139). Basically, this means that

financial wealth (economic sustainability) can bring benefits for the society and improve the quality of life for the people (social sustainability) or enhance the importance of protecting the nature (environmental sustainability), but the impact can also be the opposite. In many cases, economic growth has meant accelerated utilization of natural resources and improvement in the quality of life for some people while undermining it for others. Thus, to understand these *spheres* of sustainability, one must understand that the relationship between the spheres is dynamic and complex, causing different effects in different times and places (Zadek 2007, 137.). In this study, the main focus is the social aspect of corporate responsibility and therefore using the definition of CSR seems appropriate.

The World Business Council for Sustainable Development (WBSCD) has defined corporate social responsibility as the “*continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large*” (WBSCD 2000). In other words, this means that the company is responsible for its actions to anyone it might concern, whether they are customers, shareholders, politicians, trade unions, non-governmental organizations (NGOs) or the civil society. According to the President of the WBSCD, *Björn Stigson*, this is also beneficial for the companies because “*business cannot succeed in a society that fails*”. CSR’s central element is to transfer the demand for the responsibility into opportunity that can also have positive long-term effects on a company’s economical success (Juslin 2003.). In this sense, taking care of their social responsibilities, the companies are building an image of themselves as a responsible actor to avoid conflicts with their stakeholders and by doing that, also attract potential investors.

The United Nations has launched its initiative for corporate social responsibility; *the Global Compact* was officially established in 2000. The Global Compact is a framework for businesses that are committed to aligning their operations and strategies with ten universally accepted principles concerning human rights, labour standards, environment and anti-corruption. Companies can voluntarily participate in

the Global Compact by accepting these principles and by following initiative's recommendations and guidelines concerning different CSR -issues (United Nations 2007).

European Union has defined the concept of CSR as follows: “*whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis*” (CEC 2001). The emphasis is on the word *voluntary*, meaning that CSR is not just about compliance to law and regulations, but instead about implementing sustainability issues into company's everyday actions and as a solid part of company's core strategy. CSR is about going beyond basic legal obligations, which can result in better profits and economic growth as well as good company citizenship.

1.3. Corporate social responsibility in the context of the forest industry

The pulp and paper-industry, amongst other natural resource based industries, has to take its social responsibilities seriously. This derives from the use of natural resources in this industry that has a major impact both locally and globally. An industry that uses limited natural resources, which are considered to be common property of the whole society, must gain society's approval for its actions in order to operate (Näsi et al. 1997). Especially the globalizing companies are vulnerable towards the CSR risks in expanding operations to new regions.

Since the 1970's, there have been several occasions where forest industry companies have fallen into disparity with the local people. One of the most recent examples is the conflict that has taken place in Uruguay near the Argentina's border where in 2005 *Metsä-Botnia* started to build a new pulp factory in Fray Bentos, close to the border river between Argentina and Uruguay. Argentineans have protested strongly against the factory because they claim that *Metsä-Botnia* ignored its impacts on the Argentinean people. The event has turned out to be a political one and has attracted a lot of media publicity, which has forced *Metsä-Botnia* to take a more cautious attitude

towards its project in Uruguay (HS 30.8.2007). However, the company does not want to get too much involved into resolving the conflict because of its political nature and the project was carried out according to original plan as the factory started production in December 2007 (Seppäläinen 2007).

Another concern related to social sustainability in the forest industry business is the increasing consolidation and the increase of market power in the hands of the largest few forestry companies. From the year 2000 to the 3rd quarter of 2006, 374 deals were completed in the pulp and paper industry (Ernst & Young 2007, 22). Different stakeholders are concerned about these multinational companies' economic and political power, which might lead into a situation where companies are increasingly determining the forest policies. Stakeholders have recently pressured companies to become more accountable and transparent in their actions all over the world (Hawkins 2006, 67; Sinclair & Walton 2003).

A socially interesting trend in the globalizing forest industry has been the rise of foreign direct investments and the moving of production towards the so called low income countries in the industry's aspiration for better profitability. Many companies source their products from developing countries because of the existence of low-wage labour (de Bakker and Nijhof 2002). As a result, many forest industry companies have remarkably decreased their workforce in their home country, which has brought forward ethical questions about social sustainability. For example, in Finland the forest industry has always had a large approval by the citizens because it has created jobs and wealth to the Finnish society. The Finnish government has favored the forest sector in many ways, for example through currency devaluations, taxation and trade arrangements, which have been designed to support the industry against financial problems. This so called 'Nordic model' has been exceptional in comparison to other industrial countries in its effort to keep all the involved social groups satisfied by sharing the benefits throughout the society. (e.g. Ojala & Lamberg et.al. 2005; Donner-Amnell 2004a.) However, the latest development in the forest industry cutting down its operations in Finland has changed general opinions and attitudes to

become more critical towards the large pulp and paper industry companies. It has raised conflicts between the industry and the private nonindustrial forest owners, employees and trade unions. Many of the globally operating forest industry companies have lost their credibility in the eyes of the local people because of the continuing local cut-offs. People feel that the companies have betrayed them despite all the support that the society has given to the industry (HS Public web debates 2007).

Globalizing companies are also facing challenges in their new operating environments. Cultural differences challenge the legitimacy of the companies because the demands placed upon corporations change over time and different communities often have different ideas about what constitutes legitimate corporate behavior (Näsi et al.1997). In their new operating environments, multinational companies also face global problems such as poverty, child labour, water and food shortages and human rights violations. In addition, Dauvergne (1997) introduces the existence of the complex patron-client timber networks, especially in the fragmented societies of the Southeast Asia. In his research, Dauvergne points out that in these societies, the logging operations are in the hands of several (local) actors, as a results of which *“[these] multiple layers of responsibility reduce accountability and transparency, increasing the difficulty of the enforcement and effective management”* (Dauvergne 1997, 199). In other words, since the production chains are long, the multinational companies acquiring timber from these resources are, in reality, unable to prevent the local mismanagement, led by the local authorities, politicians and military forces (Dauvergne, 1997). Under these circumstances, it is clear that CSR-practices will become one of the most dominant issues in the business world in the near future. Metsä-Botnia’s project in Uruguay and the protest that it has raised is a good example of how important it is to have enough knowledge about the prevalent economic, political and cultural conditions in the new operating environment. Even if the company had plenty of information in advance, something unexpected can always occur (Tekniikka & Talous 2007a).

1.4. Aims of the study

Corporate social responsibility is an important question among many scientific disciplines. So far the theorizing of CSR has drawn elements from many different scientific disciplines including legal studies, sociology, ethics, political studies etc. The popularity of the topic has produced a significant amount of literature and research with different approaches. However, the research including elements from geographical perspective has for now been completed in relatively small amounts. Secondly, sector-based research is also needed because different industries deal with CSR issues in different ways. To create standardized reporting, it is important to define the relevant CSR issues for each industry separately.

Table2. Summary of previous relevant studies related to CSR and regional characteristics.

STUDY	INCLUDES FOREST INDUSTRY	MAJOR RESULT/CONCLUSION
Brammer et al. (2006)	No	Firms shape their social performance strategies to their geographic profile, particularly so that the more geographically dispersed firms tended to have better social performance
The ideal Corporate Responsibility... (2006)	Yes	Wide range of performance across the 25 studied European pulp and paper companies. Major weakness of the reporting is the lack of detail in independent verification
Maignan and Ralston (2002)	No	CSR in the US is value driven, emphasising community welfare, whereas in Europe CSR is more performance driven, emphasising issues such as productive processes or environmental quality.
Mikkilä (2006)	Yes	Corporate responsibility was based in legislation, regulations and standards in Finland, Germany and Portugal, whereas in Suzhou area in China the responsibility was understood as social duties of business enterprises towards society.
Näsi et al. (1997)	Yes	Managers adjust their responds according to the shifting demands of the most important stakeholders.
Panwar et al. (2006)	Yes	Reporting of the European companies has been primarily driven by ethical factors, whereas North American industries have been more strongly driven by legal considerations.
Perrini (2005)	Yes	Strong uniformity in the CSR reporting of the European business.
Sharma and Henriques (2005)	Yes	The current stakeholder influence heavily focuses on the intermediate sustainability practices amongst the Canadian firms.
Simmerly and Li (2000)	No	A positive relationship between multinationality of a firm and its social performance

The purpose of this *case study* is to evaluate the current level and contents of the social responsibility reporting by some of the largest European forest industry companies by using a qualitative approach. Case study is a methodology used largely especially in the field of social sciences. The aim is to describe the contents of reporting, not to place the companies involved in any specific rank order. The data is gathered from the companies' annual reports and websites; the findings are then analyzed qualitatively and based on the results, each company is summarized. Summaries are then sent to companies that are asked to comment them. The comments will be taken into account for the final conclusions. The purpose of this is to reduce the subjectivity and avoid the possibility of misunderstandings. Finally, the results will be reflected against recent writings in some Finnish newspapers and on their websites. The purpose of this is to compare companies' perceptions about the social responsibility issues against the current public opinion and social debate.

The study is outlined only to concern large European companies in terms of economic success and the scale of reporting in general, therefore the smaller and more domestically operating SMEs are not included (table 3). The annual reports are analyzed from the period of 2000-2005, but also older reports are used as a source of background information and the companies' websites reinforce the material.

The structure of the study is the following; the first two parts deal with the definitions and reporting concerning CSR issues, third chapter introduces theoretical framework and methodology, fourth chapter contains the analysis and summaries of the studied companies and the final parts present the results, conclusions and recommendations for further investigation.

2. CORPORATE SOCIAL RESPONSIBILITY REPORTING

2.1. Current state and problems of CSR-reporting

The increasing environmental awareness of the European customers and the significant empowerment of different environmental movements and other NGOs are major factors that force companies to pay attention to their performance in public. In other words, this can be called a management of the *social responsibility profile* (Hawkins 2006, 237). It is challenging, because while the companies have started to improve their environmental and social management and reporting this does not necessarily mean that the companies are really being committed to act in a sustainable way. It is indeed easier to say than really do things. The reporting has been criticized for being so full of rhetoric that at the extreme, reporting can almost be considered to be relatively useless (Hawkins 2006, 205). According to Richard Welford, the complex and fuzzy definition of CSR causes the companies to interpret CSR as they see necessary, without actually changing the way how they operate. However, since the social issues are often controversial, there is necessarily no need for a single definition; Welford concludes (2004, 32-33).

Different sectors need different kind of reporting, which is yet another challenge in developing good reporting and the best practices. Because of the lack of the common standards and measures, reporting has, for now, been quite variable and therefore almost impossible to compare. Universally adopted and accepted framework for sustainability reporting, and for social reporting in particular, needs to be developed (UNCTAD 2004). What is being reported also varies remarkably.

Some studies have shown that most frequently companies report the following issues:

Table3. Examples of sustainability indicators used by some of the large MNCs, studied earlier by Szekeley & Knirsch (2005).

<ul style="list-style-type: none"> • Total income • Earning before tax • Net income/profit • Earnings per Share • Revenue • Total expenditure on purchased goods, services, materials • Taxes paid • State subsidies and assistance • Donations to the community and civil society • Sales • Cash flow • Investment in R&D • Production volumes • Personnel costs (wages, benefits etc.) 	<ul style="list-style-type: none"> • % of employees in environmental management • Energy consumption • Total water consumption • Emissions of greenhouse gases • Waste • Paper consumption • Business travel • Total material consumption • Significant quantities of spilled chemicals, oils and fuels • Total expenditure for environmental protection • Additional input/output balance • Recycling 	<ul style="list-style-type: none"> • Number of employees • Staff in training (number) • Average participation of employees in education measures (days) • Fluctuation rate and net change in employment • Workforce profile • Lost days/absence • Accident rate • Donations
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In 1997, the United Nations established *The Global Reporting Initiative* (GRI), a network, which aims “that reporting on economic, environmental, and social performance by all organizations becomes as routine and comparable as financial reporting”. GRI consists of multiple groups of stakeholders, experts, governments of countries and NGOs. It has published guidelines for social reporting, which are essential part of GRI Sustainability Reporting Framework (GRI 2007). Purpose of the GRI is to gather relevant information from the different stakeholders’ groups to create a standardized framework for reporting.

European Union has published *The Green Paper* on CSR in 2001, which deals with the European framework for corporate social responsibility and the environmental issues in particular. However, the Green Paper also emphasizes the importance of building partnerships between key stakeholder groups and also the relations between

the different companies along the whole length of the supply chain and therefore is useful in defining other aspects of responsibility as well (Welford 2004, 32).

According to the research made by Sinclair & Walton, European forest industry companies produced the second highest figure in reporting both in terms of the number of levels at which they report and also the quality of reporting. Nevertheless, there is a definite need to develop comparable quantitative indicators that enable appropriate assessment of these reports (Sinclair & Walton 2003). Different NGOs have also been interested in the social responsibility reporting in pulp and paper industry. World Wildlife Fund studied 25 forest companies' annual reports in 2005, and found out that there are at least five areas where improvements are needed: 1.) performance against industry benchmark, 2.) stakeholder commentary, 3.) safety issues, 4.) emissions of chemicals/toxics and 5.) transportation issues. WWF also noticed that the information in the reports is spread out and the relevant information is rather difficult to find (WWF International 2006).

For now, it seems that firm size, industry type, profitability and location mostly defines the amount of corporate social reporting as the results are characterized by diversity and inconsistencies (e.g. Hooghiemstra, 2000; Simerly and Li, 2000). Many of the large and multinational companies have recognized the value of reporting as part of their risk management. Companies have understood that having a reputation as a responsible "corporate citizen" can improve the competitiveness and profitability remarkably in the future as many remarkable investors have become more interested in so called ethical investing. Companies have also understood that openness and transparency reduces the risk of conflicts with different stakeholders as they willingly report about their actions in public. Yet many small or medium-sized enterprises (SMEs), despite their significant role as a local employer, seem to lack the interest, resources or willingness to pay too much attention to CSR- practices (UNCTAD 2004).

Despite the fact that the small companies are in many ways involved in socially responsible activities, they haven't really adopted CSR policies. This is because of the lack of resources (money, time, and people) and secondly, small companies usually confront less pressure from the different stakeholders. Even though reporting has been concise, it does not mean that the SMEs do not care about the responsibility issues. Usually the small companies are more or less supporting the local communities through community involvement. The concept of community involvement refers to a multiple actions taken by enterprises in order to maximize the impact of their donated resources such as donations, products or services to a local charity, sponsoring activities etc. (CEC 2002).

This has also been the case with the bigger companies. Reporting of CSR in its current form may be a relatively new phenomenon, but it does not mean that the companies have not been involved in socially responsible actions before. There is a wide variety of examples where a company has taken care of the welfare of the employees and the community on a much broader level than it was obliged to. For example, *Enso Gutzeit Oy* provided social services and housing as early as the late 19th century for its workers (Rytteri 2004, 204-207). Actually, in Finland many small communities have formed *only* because of the existence of a paper mill or a sawmill where acknowledged workforce was desperately needed. Thus, companies provided services that embedded people to work for them. This sense of community continued to some extent for several decades until the 1980's when the companies were entirely liberated from their role as a promoter of regional development and the easement of producing social services shifted from the companies to be a responsibility of governmental institutions. Hereafter companies have been able to focus, before all, on their profit maximization (Rytteri 2004, 209).

2.2. Third party verification and certification systems concerning CSR issues

Some third party verification systems and indexes have been developed for measuring corporate social responsibility. Many forest industry companies have found them to

be a useful tool in their business management: “...as they help investors to identify companies that create long-term value for shareholders and for society at large” (Stora Enso, 2004). Certifications and eco-labels are also important from a stakeholders’ point of view as they address the quality and accountability of the company. They are helpful in creating a good company image and reputation. This chapter introduces briefly some of the main verification and certifications systems related to corporate social responsibility reporting that are especially relevant for pulp and paper industry.

FTSE4Good rating

FTSE Group is a world-renowned index company, owned by The Financial Times and the London Stock Exchange. FTSE has launched a Socially Responsible Investment (SRI) index series called FTSE4Good. The FTSE4Good series is designed to reflect the performance of socially responsible equities and facilitate investment in these companies. The FTSE4Good indicators are divided into three main areas: environmental sustainability, human rights and stakeholder relations. The last refers mainly to the quality and extension of company’s reporting (FTSE 2007).

Dow Jones Sustainability Indexes

Dow Jones Sustainability Indexes, **DJSI World** and **DJSI STOXX** (European sub-category) are the first global indexes tracking the financial performance of the leading sustainability-driven companies worldwide. Like FTSE4Good, Dow Jones Sustainability Indexes also evaluate the companies through the many aspects of sustainability, including economic, environmental and social management and long-term strategy of the companies. Reporting of the companies is also important part of DJSI ratings (SAM Indexes GmbH 2006).

ETHIBEL

Ethibel is an independent consultancy and research organization, which aims to guarantee the quality of socially responsible and ethical investments. ETHIBEL's Board of Directors is specialized in various aspects of sustainable development

representing different stakeholders groups in various ways. ETHIBEL recommends using the indicators from the GRI Guidelines as a benchmark (Ethibel 2003).

Nordic Sustainability Index

Established by Nordic Council of Ministers, Nordic Sustainability Index is based on the screening of Nordic companies in regards to social, environmental and corporate governance performance. It is important within the forest industry as many of the world's leading pulp and paper companies are Nordic by origin (The Nordic Council 2007).

FSC and PEFC – Forest Certifications

Forest industry has been accused repeatedly for endangering the biodiversity and wasting of natural resources by supplying illegally logged timber from ecologically sensitive areas, especially from the tropical forests of Southeast Asia (Rytteri 2002, 139; Dauvergne 1997). Accusations like this can have a devastating effect on a company's reputation and the survival in the future as reputation strongly influences the purchasing decisions and the customers' willingness to pay (Spirig 2006, 91). Therefore it is very important for European forest industry companies to make sure that all the actors along with the supply chain perform in a responsible manner. For this reason, forest certifications are essential for forest industry companies in order to assure the customers, investors and NGOs that the raw material is produced legally and from sustainably managed forests.

Forest certification systems FSC and PEFC are largely adopted in European forest industry companies. FSC (Forest Stewardship Council), founded in 1993, is an international certification system that aims at economically, socially and ecologically sustainable management of forest resources (FSC-Finland 2007). PEFC (Programme for the Endorsement of Forest Certification Schemes), founded in 1999, is an international umbrella organization for national certification systems that aims for the assessment and the mutual recognition of national forest certification schemes developed in a multi-stakeholder process (PEFC 2007). Both certifications require the

implementation of certain principles that are being monitored by third party organizations.

Forest certifications emphasize transparency within the whole supply chain, starting from the forests, ending up to marketing and selling of the final products. In 2005, both the World Bank and WWF made evaluations between FSC and PEFC. According to WWF, assessment revealed that FSC is more uniform in its demands than PEFC, and it also was superior in terms of transparency and accreditations of certifications, though there are yet some challenges left for the FSC to resolve. WWF sees that the different stakeholders within forest industry should try to combine elements from both PEFC and FSC, instead of fighting on behalf of one or the other certification system as the current situation is in many countries (WWF Finland 2007).

3. THEORETICAL AND CONCEPTUAL BACKGROUND

3.1. Theorizing corporate social responsiveness

This chapter introduces briefly the five different theoretical frameworks that have been used in examining corporate social responsibility. One of the most widely used is the *legitimacy theory* (Gray et.al. 1995 as cited in Hooghiemstra 2000; Näsi et al. 1997). Central to legitimacy theory is the idea that the legitimacy is a social construct based on cultural norms for corporate behavior and that a company has to operate within the bounds and norms of the society in order to succeed (Brown and Deegan 1998, as cited in Hooghiemstra 2000). However, as these norms vary and change in different times and places, companies must constantly gain society's approval by demonstrating that their actions are legitimate and corporate social reporting is one of the tools for achieving this goal (Hooghiemstra 2000).

According to Sethi (1975, 1977, 1978 and 1979): "*legitimacy problem occurs when societal expectations for corporate behavior differ from societal perceptions of a*

corporation's behavior” (as cited by Näsi et al. 1997). This legitimacy problem, called a *legitimacy gap*, a company can try to solve by using four different strategies: 1.) educating and informing the stakeholders as an attempt to change their societal expectations, 2.) changing stakeholders’ perceptions concerning the negative issues, without changing actual behavior, 3.) distracting attention away from the negative issues by emphasizing the more positive ones or/and 4.) bringing about the changes in business performance, thereby matching in with society’s expectations (Näsi et al. 1997; Gray et al. 1996 as cited by Hooghiemstra 2000).

Another largely used theoretical approach has been the *stakeholder theory*. The most frequently used definition about the stakeholder is the one made by Friedman (1984): *any group or individual who can affect, or be affected by the achievement of corporation's purposes can be considered to be a stakeholder*. Companies exist at the intersection of a range of interest, stakeholders (Figure 2).

Companies have to identify the most powerful stakeholder groups, which are the ones that companies are most dependent on. Therefore, companies must perform in a way that satisfies the most powerful groups of stakeholders. If the companies fail in this task, the powerful stakeholders with an access to the political processes or the media can have a serious impact on company’s reputation that endangers future business opportunities. From this perspective, it seems that the companies are not actually responding to the social issues as such, but rather to the stakeholder issues (Näsi et al. 1997.).

Stakeholder theory can also be understood in a way that the operations of a company can be described and explained best by studying the company’s interaction with its stakeholders (Mikkilä 2006). Stakeholder theory neglects business practices as part of the broader entity, the society which the company is surrounded by.

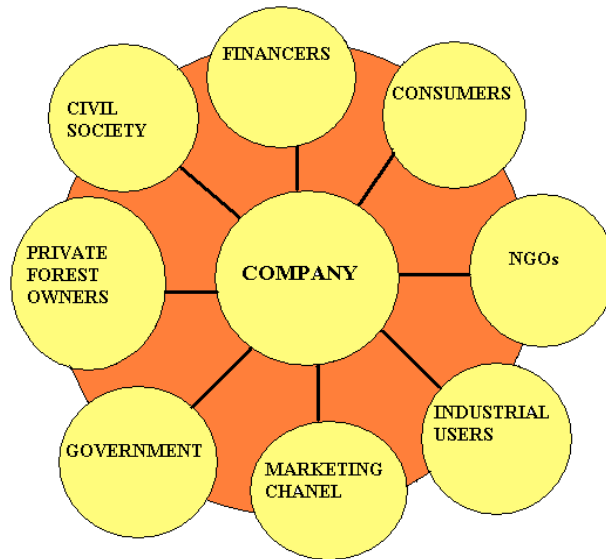


Figure2. Main stakeholder groups in forest products industry.

Stakeholder approach is very close to another theoretical framework, the *actor-network theory* (ANT) that was originally developed by *Latour, Callon and Law* (Latour 2005; Law 1999). ANT has been widely used in geographical research. ANT focuses on construction of networks and the roles of different actors within them. In this case, the focus is placed on networks of pulp and paper production. Exceptional for the stakeholder theory is that ANT considers also non-human actors to be stakeholders, which means that in forest industry networks also trees, forests, mills and machines have their specific and important roles as actors (Kortelainen 2004, 108).

According to some studies, ANT has been only rarely used in research of corporate responsibility (Egels-Zandelin & Wahlqvist 2007). However, ANT could be a useful tool in understanding the influence of different actors in a process whereby forest industry companies start to implement CSR practices into their business strategy.

One of the basic concepts in ANT theory is *translation*. Translation implies to the process where networks are being built. *Enroller* is the driving force of the network-building; an actor who is able to persuade other actors and gain the authority to speak

and act on behalf of other actors (Callon & Latour 1981, as cited by Egels-Zandelin & Wahlqvist 2007). However, enroller must also *enroll* itself into the network and to adapt to the requirements of the other actors within the network.

According to Kortelainen, spatiality in networks must be understood to be topological and dynamic, forming in relationships between different actors. This means that the actors with similar properties are closer to one another whereas actors with divergent elements are further away from each other. In his analysis of *Forest Regimes in Russia*, Kortelainen has also used the concept of a *wormhole*, originally introduced by E. Sheppard (2002). A wormhole implies to a situation where distant places or spaces suddenly become closer to each other and have effect on both ends of the wormhole. In this context wormhole refers to the process where new actors, for example environmental NGOs, enroll themselves into the networks creating new kind of relations between the actors (Kortelainen 2004, 111.).

The fourth, relatively new approach is the concept of *corporate communication*, developed by *Argenti* and *Van Riel* amongst others (Hooghiemstra 2000, 57). It is also similar to the stakeholder theory as it defines corporate communication as an instrument of management where companies pay attention for their internal and external communication, in order to create a favorable basis for relationships with groups, upon which the companies are dependent on. In this approach, corporate image, symbolism and other forms of self-presentation have a significant role in corporate governance (Van Riel 1995; Gray et al. 1998 as sited in Hooghiemstra 2000). According to Deegan et al. (1999, as sited in Hooghiemstra 2000) an industry that confronts lots of negative media publicity responds to it by increasing the amount of social and environmental disclosures in their annual reports, mostly aimed at showing the legitimacy of their ongoing operations. Therefore, reports are an important tool in corporate communication as they can contribute to companies' reputation and, also by using impression management, effectively handle legitimacy threats (Hooghiemstra 2000).

Finally, one popular theoretical approach for CSR has been the *life cycle theory* developed e.g. by *Robert Ackerman* in 1975 in *The Social Challenge to Business* (Näsi et al. 1997). The basic idea of the life cycle theory is that social issues follow a certain predictable circle and that companies' responsiveness to the social issues is usually a three-phase process. The phases are 1.) Policy, 2.) Learning and 3.) Commitment. The theory describes the way in which a company first becomes aware of the social issue, then learns about it and finally deals with it by changing its policies on an operational level. Since the different companies have their individual ways to implement CSR into practice, the life cycle theory is suitable only for the analysis of individual companies and the results are unlikely to be something that can be generalized. In addition, the life cycle theory ignores the social issues that companies do not recognize, let alone deal with (Näsi et al. 1997).

3.2. Theoretical framework for this study

All of these introduced theories have their strengths and weaknesses, which is not surprising. While they are not contradictory to each other, usually too much emphasis on one aspect determines the emphasis placed on others that are also important. Näsi et al. (1997, 303-304) claim that the settings are far more complex and nuanced than these perspectives try to describe. Therefore, to become really useful, much more developed views of social processes should be included in the theories concerning CSR. Rather than strictly following one of these theories, many authors examining the issues of corporate social responsibility have been favoring a use of a more mixed, more holistic approach where different perspectives form a rational entity (Table1). Because the examined issue is far from standardized, it is only natural to seek for a relevant perspective by developing new ones.

In this case study, theoretical framework consists of elements drawn mainly from the stakeholder theory and ANT. The reason for using ANT is the appetency to reinforce the cross-scientific theories of CSR with a geographical approach and to utilize the discipline's deep knowledge of global processes. The idea is to combine the most

useful parts of these two frameworks in order to create a more holistic approach in a study of corporate social responsibility.

3.3. Research questions and methodology

The stakeholder theory and ANT are relevant in this study due to the fact that companies never operate in a vacuum (Mikkilä 2006, 15). Companies contribute to their communities by providing jobs, wages and tax revenues. On the other hand, the companies are dependent on the health and stability of the communities in which they operate. Therefore, it is interesting to ask **to what extent the companies appear to realize the bidirectional relationship with the surrounding communities in their reporting of social responsibility issues, especially the ones that concern the employees?**

There are several different ways to approach the issue of corporate social reporting. According to Szekely and Knirsch (2005), there are at least eleven different approaches to assess a company's CSR- practices:

- | | |
|-----------------------------------|--------------------------------------|
| 1.) surveys, | 8.) standards and codes, |
| 2.) award schemes, | 9.) sustainability indicators, |
| 3.) investor's criteria, | 10.) metrics for sustainability |
| 4.) benchmarking, | performance and |
| 5.) sustainability indexes, | 11.) non-quantifiable sustainability |
| 6.) external communication tools, | initiatives. |
| 7.) accreditation processes, | |

This study is the closest to the option ten, as one of the goals is to seek comparable and measurable indicators, but also some non-quantifiable indicators are examined.

In particular, the aim of this study is to evaluate eight European forest companies and their reporting during a period of 2000-2005. Therefore, the most practical approach

seemed to be the analysis of organizational data, which includes both quantitative and qualitative indicators. By using the methodology of content analysis, it is possible to pack the otherwise scattered material into a clear and brief form and bind it as a part of a comprehensive entirety (Tuomi & Sarajärvi 2004). In this study, content analysis means collecting certain indicators from the annual reports and sustainability reports (when available) and analyzing them through the theoretical frameworks of the stakeholder theory and ANT.

In this study the interest is in the growing trend of globalization and its social effects on both local and global scale. The research focuses on the employees of the companies and especially on the regional changes that have taken place in 2000-2005 in the companies' employee structure. Since some of the recent studies have shown that the environmental reporting has become a more institutionalized and established part of the companies' strategy and many studies have been made concerning the environmental reporting (e.g. Sinclair & Walton 2003; Simmerly & Li 2000; Brammer et al. 2006), the emphasis of this study is placed on social indicators and human resources in particular.

Another important aspect in this study is the *geographical diversification* of company operations and its potential impact on companies' social performance. Many authors have recognized the linkage between internationalization and social responsiveness in multinational companies (MNCs), yet very little research about this interdependency has been undertaken (e.g. Christmann 2004; Carroll 2004; Kostova and Zaheer 1999, as cited in Brammer et al. 2006). This linkage derives from the increasing number and diversity of stakeholder pressure in companies' new locations (Brammer et al. 2006). According to the stakeholder theory, a company's success depends on its ability to respond to the stakeholders' claims and to interact with them. Therefore, it is necessary for the company to formulate corporate strategy to match the local social, cultural, regulatory and economic variations. By analyzing the data collected here, this research aims to answer the question about the existence of this linkage in the large European forest industry companies. Thus, the second research question is: **in**

which ways have the companies changed their social performance since moving their activities into new geographical locations, or have they?

Thirdly, this study is to some extent also interested in the **linkage between the internationalization and companies' economic performance**. This aspect is investigated by analyzing the degree of internationalization against two economic key indicators; net sales and return of the capital employed (ROCE). However, since the material used in this study is collected from a relatively short period of time and the emphasis is mainly placed on corporate social reporting, this evaluation can be considered to be only a brief review of what kind of structural and economic changes have taken place inside the forest industry during the recent years. Since there are only few studies available of the linkage between the company internationalization and economic performance, in a way this is also meant to be a starting point for future investigation and research (Laaksonen-Craig & Toppinen 2007).

3.4. Collecting the data

Many organizations and initiatives have been established in order to create a general framework for CSR -reporting, but earlier research indicates that only few companies use several suggested indicators in their reporting and even when they do, the companies tend to be quite selective (UNCTAD, 2004). Therefore, the companies that were chosen for this study are being analyzed on a case-by-case basis, using the indicators that can be found from their reports.

The data was collected from the annual reports and sustainability reports that the companies have published in 2000-2005. Also the companies' websites were used as a source of information. According to Sinclair & Walton, the annual report is seen by many authors as a major channel for corporate communication. Its accessibility, widespread distribution and use by a number of stakeholders as a sole source of information are the reasons for focusing research exclusively upon this document (2003, 328.). Research was limited on a *corporate level*, thus reports of subsidiaries

or independent business units are not included in this study. The years from 2000 to 2005 seemed to be the most practical time period for several reasons. Firstly, since the need for social responsibility reporting truly emerged at the end of the last decade, there is only a small amount of data available on the social issues before the year 2000. Secondly, many forest industry companies went through major reorganizations and mergers in the late nineties. As a result of this, finding all the adequate data from the different sources before the year 2000 would have been a challenging task and the material would have barely been comparable.

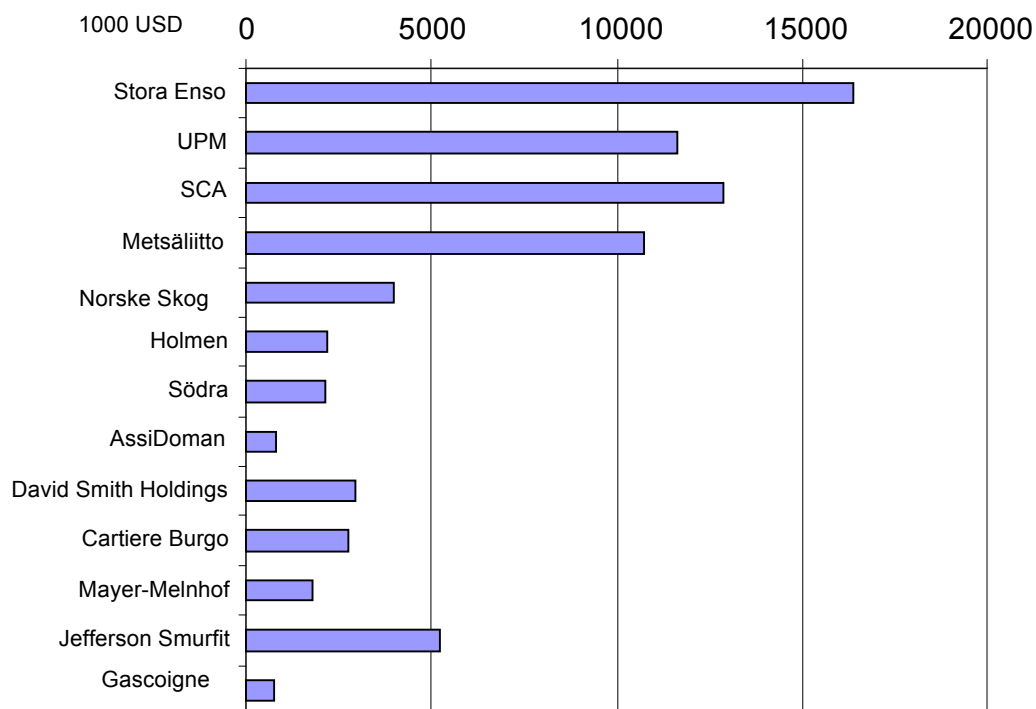
Thirdly, the economic growth in general has been quite stable during the years 2000-2005. However, the forest industry has constantly suffered from low profitability, regardless of the continuing growth in annual sales. Many reasons for low profitability can be found. To mention some of them, there is a serious imbalance between supply and demand in the European markets; new competitive actors are rising especially in Asia; costs of energy are increasing and at the moment there is also an unbeneficial rate for the European currency, especially in the US. All of these factors together are determining the economic performance of the European forest industry (Donner-Amnell 2004b; Ernst & Young 2007). More difficulties can be expected as Russia recently started to raise its export tariffs for round wood that they have been supplying for the production sites around the Scandinavia. The existence of these Scandinavian sites is highly dependent on affordable timber imported from Russia and the lack of raw material will most likely lead to closing of factories in Northern Europe (HS 5.12.2007).

Low profitability is one of the most important factors in the increasing degree of internationalization in the forest industry. Lower expenses and low-wage labour drives forest industry companies into new locations, in search of better profitability. This development is central to the companies' social performance as they operate in new environments, which can be very far from what these companies are used to. Because the globalization of the forest industry truly started in the beginning of the

21st century, the data collected between 2000 and 2005 should be the most relevant for this purpose.

Admitting that the five-year-period is a relatively short time and no definite conclusions can be made on a such short notice, it is still possible to trace some significant changes that have taken place in corporate responsibility reporting during these years. This same observation is valid when admitting that analyzing companies' economic competence against the degree of internationalization might appear to be slightly too early, since the long-term impacts of internationalization are yet unknown. Yet again, it is still interesting to have an idea about the relationship between these two elements in recent years. Case-studied companies were chosen on the basis of the quality and comprehensiveness of reporting. As said before, the quality of reporting depends mainly on the firm size and level of the internationalization. Therefore, most of the studied companies are large and operate globally. The research was limited to European forest companies and due to the size and good quality of reporting in general, a majority of the companies that were selected is Nordic by origin.

Table4. The largest forest industry companies by turnover (1000USD) in Europe (Source: PWC 2006).



At the beginning, the purpose was to include also some of the smaller and more regionally operating companies in this case study, but since the suitable data was not found from the companies' websites and some of the companies did not respond to requests to send material, they were left outside of this study. This indicates that the firm size and degree of internationalization definitely affect the corporate social reporting.

4. RESULTS OF THE ANALYSIS OF THE COMPANIES STUDIED

4.1. Case: SCA

SCA Group, founded in 1929, is a Swedish-based MNC, with a turnover of circa 13 000 million USD per year. SCA has about 51,000 employees in some 50 countries. The company produces personal care-products, tissue, forest products as well as packaging products and its largest markets are located in Europe and US. The average number of employees has increased during the years 1995-2005 from 34859 up to 50916 (Figure 3). At the same time, SCA has constantly improved its economic performance; annual turnover has almost doubled during the last ten years, but the return on capital employed (ROCE) has been declining primarily due to overcapacity and price competition on the markets of tissue and packaging. However, forest products forms only 15% of the annual turnover for the SCA Group and has kept up the profitability fairly well over the years.

SCA has been publishing separate environmental reports since mid nineties, but the reporting on social issues has been poor in comparison to environmental or economic reporting. Like many other forest industry companies, also for SCA the turning point in social responsibility reporting has been the year 2000, when the United Nations launched the Global Compact, the initiative that aims at responsible corporate governance. At the same time, GRI published guidelines for corporate social and environmental reporting. In 2002 SCA included the word "social" in the title of its

environmental report, but even after that only a few quantitative indicators can be found from the reports.

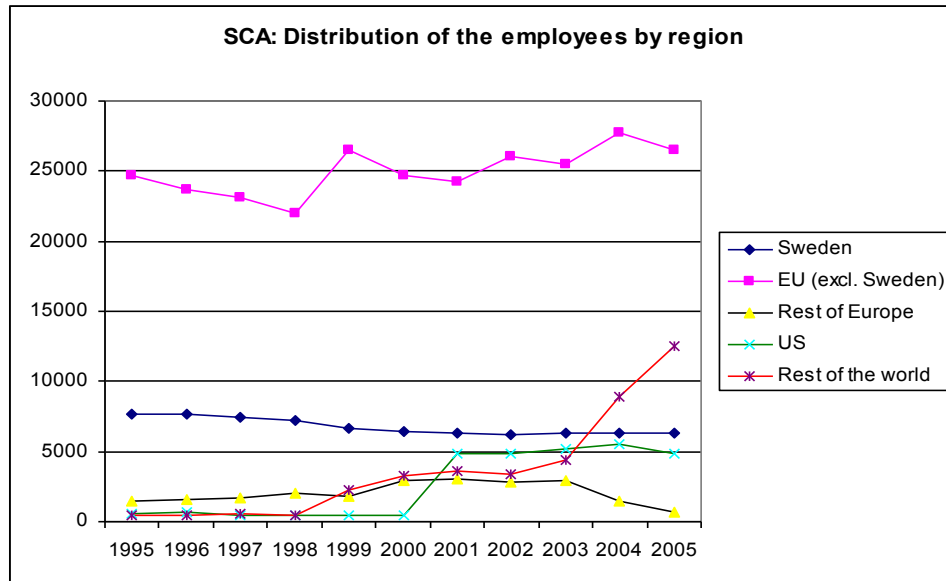


Figure3. Distribution of the employees by region (SCA).

SCA's indicators concerning the human resources during the years 2000-2005 are the average number of the employees, distribution by gender and country (latter found from the annual reports), salaries, social costs, incident rates and accident severity rates. Compared to some earlier reports, there has been a significant improvement in the Environmental and Social Report of 2005. The report includes some charts about the nationalities of SCA's top management and age structure. It also includes information about the company's reorganization process and its effects on the employees, which indicates that SCA is moving towards transparency and openness in reporting. The quality of reporting is now at a much higher level than it was in the beginning of the millennium and new indicators for measuring the social sustainability have been steadily added.

SCA is genuinely an international company, which has been constantly seeking new locations for its operations during the last ten years. The company has expanded mainly to Asia, Latin America and Eastern Europe and it claims to continue the

expansion in the future as well. Because of tough competition in the paper products markets and the price pressure that the company has faced in past few years, SCA has carried out major changes in its production chains, mainly in the business groups of tissue and packaging. For example, in 2005 about 2,000 people employed in Switzerland, Australia and Denmark lost their jobs because of the reorganization of the company. Still, the average number of employees decreased only by 120 employees between the years 2005 and 2006, as SCA simultaneously acquired companies from new locations. Because of the company's high degree of internationalization, the report should contain more discussion about the relationship with the local communities and dialogue with both local and global stakeholders in the future.

4.2. Case: Metsäliitto Group

Originating from Finland, about 70 years old **Metsäliitto Group** is the eighth largest forest industry group in the world. It's an economic co-operative association of Finnish forest owners and the company's net sales reach circa 11 000 million USD per year. The total number of employees is about 25,000. Metsäliitto Company produces wood supply, wood products, pulp, paper and board, tissue and cooking paper. The company operates in some 30 countries with its subsidiaries *Metsä-Botnia*, *M-Real* and *Metsä Tissue*. During the years 1995-2005 the number of employees has increased almost by 15,000 employees but the regional development has been similar to the Swedish SCA; the number of Finnish workers has diminished while the amount of employees, especially in Baltic countries and Russia, has increased (Figure 4).

Metsäliitto Group officially proclaimed its commitment for corporate social responsibility in 2003. That same year it became a member of the WBCSD and the *Finnish Business and Society* (FIBS), which is an institution aiming at developing corporate responsibility from the Finnish perspective in particular.

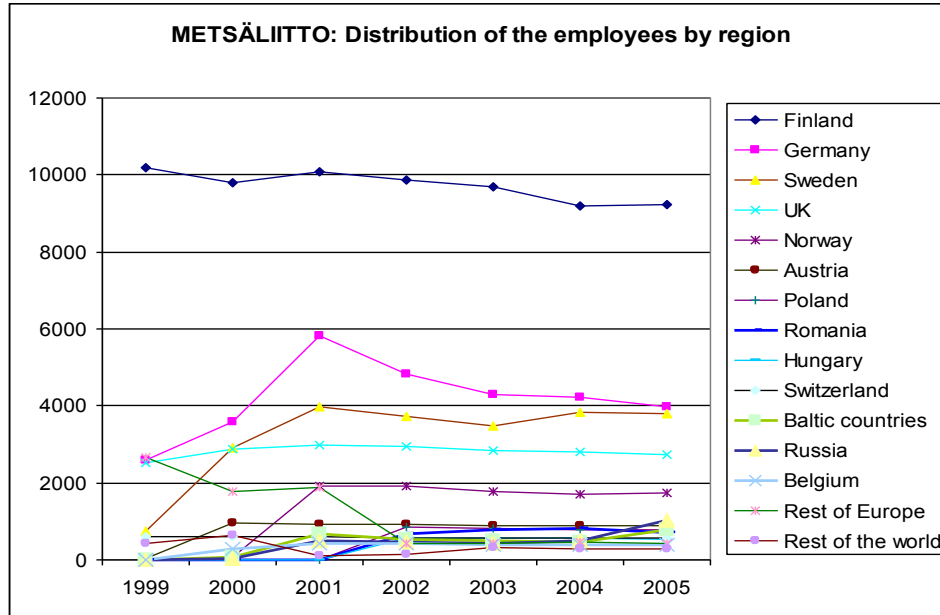


Figure 4. Distribution of the employees by region (Metsäliitto).

Metsäliitto published its first separate environmental and social responsibility report in 2006. Before the year 2006, the social responsibility issues have been included in the annual reports, but not more than 1 or 2 pages have been dedicated for this purpose. The numerical data is limited and the only quantitative indicator is the average number of employees in different countries, though different charts are displayed about the sales per employee, age structure and numbers of personnel in different units of the Metsäliitto Group. Health and safety issues are not reported at all until the year 2005.

Nonetheless, this does not mean that there has not been reporting about these issues, but the data has been included in the subsidiaries' independent reports until the year 2006. The representatives of Metsäliitto Group admit that they have been moving towards corporate thinking relatively late in comparison to the company's Finnish competitors, for instance Stora Enso and UPM (Itkonen 2007). From a point a view of numerous stakeholders, it is more practical if all the information could be found from the same source. Metsäliitto Group recognized the lack of comprehensiveness in their reporting and in 2006 the company finally published the first joint corporate responsibility report concerning all of its business areas and units.

Metsäliitto Group owns the majority of the shares (53%) of Metsä-Botnia, the company involved in land use conflict in border area of Argentina and Uruguay as discussed in earlier chapters. The event has already affected the company's reporting on social issues, as it has raised questions about social and environmental justice and the company's influence on local communities. The criticism that the company has faced is a good example of how diversified and unpredictable the circumstances can be when companies start operating in new locations. In Uruguay's case there is a large amount of different interest groups, which Metsä-Botnia should have taken more carefully into account, already in the planning phase. In order to legitimate the operation, the company also failed to recognize the cultural differences, as it tried to involve the local people in the process in the same way they would have done in their home country.

4.3. Case: Stora Enso

Stora Enso, with a history that goes back almost 700 years, is an integrated paper, packaging and forest Product Company, which was founded in 1998 in a merger of Swedish Stora AB and Finnish Enso Gützeit Oy. It is a market leader with an annual turnover of over 16 000 million USD. Stora Enso operates in some 40 countries and has an estimate of 40,000 employees (Figure 5). Stora Enso's largest market is Europe, but the company is constantly seeking for new market areas in Russia, China and Latin America.

The company has lately been in the center of public attention because of its decision to sell all of its American facilities, which the company bought from Consolidated Papers just a few years ago at a very expensive price. Based on some public evaluations, this trade means that Stora Enso will lose several million dollars in the process. However, Stora Enso still owns a minority share of the new company, New Page Holdings Corporation. External evaluation of profitability is difficult since Stora Enso's cash flow from the future US operations will remain unknown.

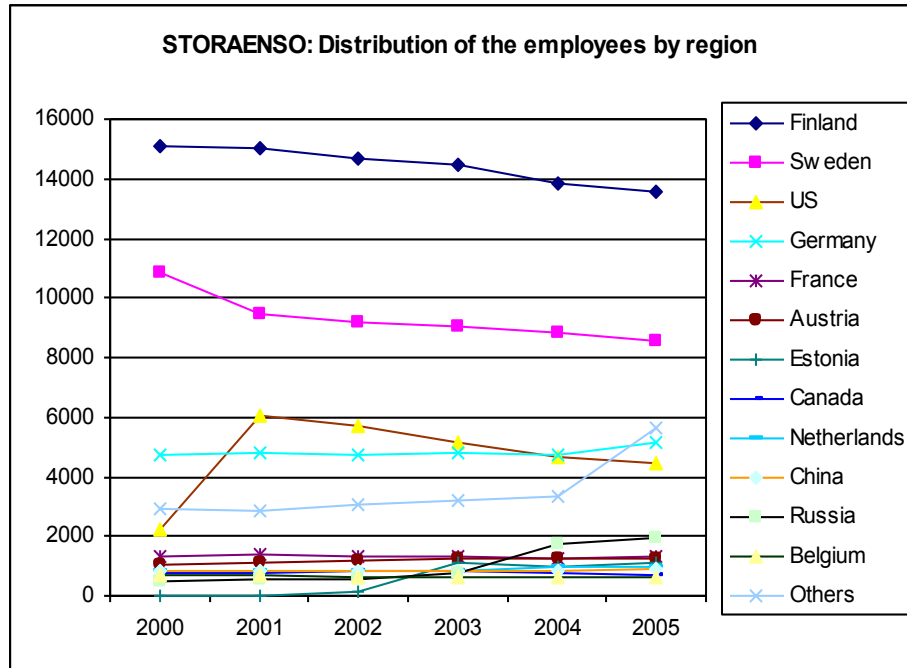


Figure5. Distribution of employees by region (Stora Enso).

When Stora Enso bought these North American units, it was a risky attempt to expand to the world's biggest paper market and acquire a stronger market presence in North America. Presumably one of the reasons for this was to improve profitability to compensate the tightening competition within forest industry in European markets. The massive North American investments turned out to be an economic catastrophe, since the paper prices went down as a result of oversupply, a decrease in consumption of some paper grades and, on top of it all, the US markets were generally harassed by the terrorist attacks in New York, in 2001 (HS 21.9.2007). The company's profitability hit the bottom in 2005, as its ROCE reached the historically low level of -0, 8% (Mikkilä 2006, 28-29).

Stora Enso's operation in US failed badly and as a result, the reorganization process that follows is going to have a negative impact on a large amount of employees. Even before the decision to sell, Stora Enso carried out many lay-offs in its US facilities because of the economic problems. The employees, especially in Nova Scotia, Canada, have expressed their concerns that the new owner, New Page, will close some of the units permanently due to weak profitability (HS 22.9.2007).

Furthermore, in 2005 the company launched two reorganization programmes, which aim at profit improvement; *Profit 2007* and *the Asset Performance Review (APR)*. These programs include personnel reductions, especially in Nordic countries, which in Finland affect over 1100 people (HS 25.10.2007). Reorganization will also include closing of saw mills and selling operations. These kinds of actions will hit the hardest on small mill communities, the survival of which is in many ways highly dependent on the industry. For example, according to a research conducted by VATT (*The Finnish Government Institute for Economic Research*), without Stora Enso's pulp mill in Kemijärvi, the region's GDP would be some 30 % lower, there would be almost 2,000 fewer jobs and the unemployment rate would be some 20 % higher (Stora Enso 2005, 38).

Stora Enso, along with some other Nordic forest companies, has a reputation of a pioneer in responsibility reporting. Its predecessor Enso Gutzeit started publishing separate environmental reports already in the beginning of the 1990's. The company signed up for the UN Global Compact's principles in 2001 and the social responsibility issues were, to some extent, included reporting in 2002. During the years 2000-2005 Stora Enso has reported, for example, the average number of employees and distribution by a country and gender, sales per employee, personnel fluctuation, training days per employee, absenteeism and age structure. The company has constantly improved its performance during these years and it has been listed several times both on the FTSE4Good and Dow Jones Sustainability Indexes. In addition, the company is also listed on Nordic Sustainability Index. In the sustainability report of 2005, Stora Enso introduces over 20 different management tools concerning the sustainability issues. Methods for managing social issues (in 2005) are, for example, Environmental and Social Responsibility Policy, Code of Ethics, Principles for Corporate Social Responsibility, General Guidelines for Reductions in Workforce and Corporate Occupational Health and Safety Policy. Most importantly, Stora Enso continues developing CSR implementation group-wide and by the end of the year 2005, almost a quarter of all the units had started to set up CSR

management systems. The goal is for each unit to develop CSR action plans and define key performance indicators by the end of the year 2007.

Stora Enso has also been relatively active in its responsiveness to different stakeholder groups. For example, the company has supported negotiations between different interest groups in the Upper Lapland land use conflict and it co-operates with the WWF in several joint projects. The company also participates in some global and local community projects together with the UNICEF and the UNDP (*United Nations Development Programme*).

Overall, Stora Enso has succeeded very well in social responsibility reporting and takes into account many multifaceted issues related to the social sustainability. The reports include the comparison of report content with the GRI Guidelines, and Stora Enso has always included a third party assessment in its reporting. Admitting that the company has announced its commitment for sustainability and succeeded quite well in public performance, based on a very high public attention on Stora Enso's operations in the fall of 2007, indicates that there still are contradictions between the company's performance and its actions.

The short-term foreign direct investments with negative side effects in home countries Finland and Sweden have raised questions about sustainability, in terms of both economic and social point of view. It is clear that the company will face many challenges in the current and foreseen business environment and has to put all of its efforts to gain the legitimacy and approval of the civil society for its future operations. People who are affected by reorganizing process may have difficulties to approve that the company is at the same time expanding operations in other countries - in Stora Enso's case in Brazil and Russia. Sustainability issues become even more important when companies in general are shifting production towards China, South America and Russia, which are all considered challenging regions regarding to environmental and social responsibility (Stora Enso 2005, 4).

4.4. Case: UPM-Kymmene

UPM is a Finnish-based, internationally operating forest products group with core businesses in printing papers, specialty papers, label materials and wood products. UPM has production in 14 countries and employs approx. 28,000 people (Figure 6). The annual turnover of UPM is about 10 mrd euros. The company was founded in 1996 as a result of a merger of the Kymmene Oy, United Paper Mills and Repola Oy, but the company has a long history in forest industry business. Its first mills and paper production facilities started operating already in the beginning of the 1870's. UPM is one of the first Finnish companies that had production facilities in Europe, thus it had experience about the internationalization at early stage (Ojala & Lamberg 2005). However, genuine globalization for the company has been a rather slow process.

UPM published its first environmental report in 1996, covering the performance of the previous year 1995. The company acknowledged the need for broadening their reporting in 2000, because of the general demand in the forest industry to take social aspects more broadly into account. UPM published its first corporate responsibility report in 2002, which included both environmental and social issues. The company reported that it has created new policies concerning social responsibility, employees, both health and safety issues and environmental issues. UPM has also announced that the company is committed to pursue the principles of the Global Compact and GRI's guidelines. It is also a member of WBSCD and FIBS, and has been listed several times on Dow Jones Sustainability Indexes. In addition, the company has been promoting different forest certification systems in countries from where it acquires timber.

Environmental groups have pressured the company e.g. because of its co-operation in the late 1990s with the Indonesian APRIL Company, which has been accused of acquiring raw material from ecologically sensitive areas and using unsustainable logging techniques. APRIL itself has persuaded that the raw material is acquired from certified forests and that the company operates in accordance with the Indonesian law

and regulations (MTV3 News 2007). However, finally in 1999-2000 UPM withdrew from Indonesia as a result of changed economical circumstances in the Southeast Asia. APRIL Company did, however, continue supplying pulp for UPM until the end of the year 2006 and during that time, at least the non-governmental organization *Friends of Earth* campaigned strongly against the agreement between the companies (Friends of Earth, 2006).

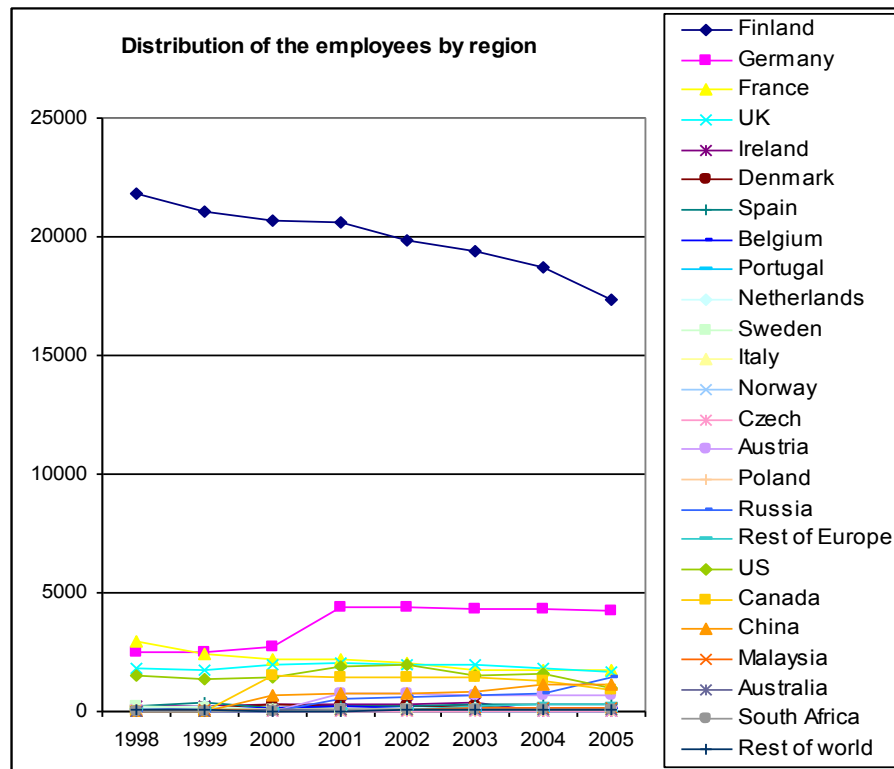


Figure 6. Distribution of the employees by region (UMP-Kymmene).

Lately, UPM has been connected to the public debate in Argentina, where Botnia's pulp mill project in Fray Bentos, Uruguay has been criticized. After Metsäliitto Group, UPM is the second largest owner of the Botnia Company, but holds a majority of the shares of Botnia S.A., which is the subsidiary operating in Uruguay. In addition to the criticism from the different NGOs, UPM has also been judged more generally for downsizing its activities in Finland. Especially the closing of Voikkaa facility in Kuusankoski in 2006 was widely debated in the Finnish society. Only recently, UPM

warned about the possibility of new closings, which has once again increased the media's attention towards the company and its actions.

During the years 2000-2005 UPM has reported social indicators widely in comparison to many of its competitors. The emphasis has been on health and safety and the training of the workforce. Even though the amount of quantitative indicators is limited, the reports contain lots of qualitative information about the company's social performance. Reporting reflects the common Nordic model of implementing CSR in practice.

4.5. Case: Holmen

Holmen, former *MoDo*, is a Swedish forest products group manufacturing printing paper, paperboard and sawn timber. Company history reaches almost 400 years backwards as the company's first mill was founded already in 1633. Holmen has circa 5,000 employees, mainly working in Sweden. The average number of employees has declined almost by half in the last ten years due to the reorganization of the company. The annual turnover of Holmen Company is about 2,500 million USD. Holmen operates in at least 15 different countries, but all the production takes place inside the EU, thus making it basically a regionally operating company.

Holmen addressed its interest to sign the UN Global Compact in 2005 and applied the membership in 2007. The company has published environmental reports since 1993, which were replaced with corporate responsibility report "*Holmen and its World*" in 2004. Among the reported issues related to human resources are the average number of employees and distribution by country and gender, age structure, sick leave and employee turnover.

In its sustainability reports, Holmen has emphasized the impacts of its business on the employment in the communities, in which the company's mills are located. Community studies carried out by Holmen in some Swedish towns and in

Workington, England represent a unique way to deal with social responsibility and assign genuine commitment to support local communities. The company has neither made significant investments outside Europe nor addressed the need for global expansion either. The strategy adopted by Holmen proves that a company can be highly profitable even without expanding operations to countries with lower production costs. Besides, Holmen's implementation of CSR into its core strategy and the good quality of reporting shows that a company does not necessarily have to be global or large in order to perform good corporate governance.

4.6. Case: Norske Skog

Headquartered from Norway, **Norske Skog** was founded in 1962. It produces newsprint and magazine paper in 14 countries worldwide. The company's annual turnover is circa 3993 million USD and the average number of employees is about 9,000. Norske Skog has changed in the last ten years from small, domestic company into large, internationalized enterprise. Norske Skog is probably the most globalized European forest products company, as it operates in all five continents. One reason for the success has been the concentration of production of more valuable newsprint while selling other, less profitable forest production facilities (Saether 2004). Secondly, Norske Skog was one of the first European companies to expand their operations in the growing markets of Asia, which turned out to be a successful process in many ways (Donner-Amnell 2004a, 188). However, like many other forest industry companies, Norske Skog has also had difficulties to maintain its profitability at a good level. This has in turn led to redundancies in Norway and Australasia, while the company has shifted its production towards the growing markets of China.

Norske Skog signed the principles of the Global Compact in 2003 and already the subsequent year it reported very widely (23 pages) about corporate social responsibility issues. However, the company's reports in general lack quantitative indicators, especially those that cover the whole group. Reporting has varied during

the studied years and also the indicators have changed so that the data cannot be collected systematically from each year.

The company has addressed its commitment to social sustainability, but reporting leaves room for improvements. One significant problem is the current way of reporting in business unit level, which makes it difficult to get a general view of the company and its geographical diversification. Norske Skog was the only company in this study that reported indicators related to human resources by business units. To gain better accountability and comparability between the companies, this is one of the elements that need to be standardized in the future. It is also one of the goals of the WBSCD and the Global Reporting Initiative (GRI 2007).

Norske Skog's annual reports contain a large amount of qualitative information about campaigns, donations and philanthropy projects supported by Norske Skog. These are assigned to improve conditions in the local communities the company operates in. In this sense, Norske Skog's social responsibility reporting is closer to the North American model than the Nordic one (Mikkilä & Toppinen 2007). As a global company, Norske Skog has to deal with numerous stakeholders from different cultural, political and ideological backgrounds. To keep its various stakeholders satisfied, the company should improve its social responsibility policies and reporting in the future by adding the amount of quantitative information that enables comparison against other forest industry companies. A third party assessment would increase transparency and credibility of reporting.

4.7. Case: Södra

Södra, founded in 1938, is a Swedish-based forest owner association similar to the Finnish Metsäliitto Group. It produces sawn goods, interior products, pulp and biofuel. Södra has about 3,700 employees mainly in Scandinavia; Sweden, Norway and Denmark. According to the PWC's statistics Södra's annual net sales reach circa 2132 million USD. The company has been moderate in its growth; the average

number of employees has increased only by a 1,000 in the last ten years. Södra has published employee data in its annual reports and so far, the company has not published separate corporate responsibility reports. Even so, the company has environmental and nature conservation policies published on its website. The indicators concerning human resources are the average number of employees, personnel turnover, average age and salaries. The reports also include some charts about the age structure, distribution of employees by business areas and absenteeism due to sickness. Södra emphasizes health and safety issues, motivation and training of the employees. The company addresses a strong commitment to its members and shareholders.

Södra faced a serious setback in January 2005, when the storm *Gudrun* hit and destroyed almost four year's harvest in forests owned by Södra members in Southern Sweden. Therefore, the joint annual report of 2005-2006 represents many activities carried out by Södra to fix the damages. For Södra, the storm and its consequences have been the biggest challenge during the company's existence and understandably, the event dominates reporting in 2005-2006.

Södra operates mainly domestically, which naturally affects the contents of its annual reports. For example, the company does not have policies concerning the issues, such as human rights, child labour or participation in philanthropy projects, which are more important for internationally operating companies. Although it is not necessary for a company to report irrelevant information, there still is a need to improve reporting on a group level. For example, the reports should include more detailed data about the employee diversity and equality. Also, reporting of the environmental issues seems to be narrower than that of many of its competitors and should therefore be improved. Södra has not addressed its commitment to the principles of the Global Compact or GRI's guidelines, and have not commented them at all in their reports. Adopting the principles of these initiatives would improve accountability and also ease the stakeholders' evaluations of the company and its activities.

4.8. Case: Mayr- Melnhof Group

The Austrian **Mayr-Melnhof Group** (MM-Karton), founded more than 100 years ago, is one of world's largest producer of fiber based cartonboard and folding cartons with the annual sales of about 1811 million USD. The average number of employees is about 8,000 in 19 countries. It has increased by over 2,000 in the last five years and the company has expanded its operations mainly to Eastern Europe. The company's main market area is Western Europe. Along with some of the other studied companies, MM-Karton has also decreased its workforce in its home country, while having shifted its production to countries known for low wages and lower costs, especially in Eastern Europe. In 2005, the company carried out closings in Germany, France and Hungary in order to improve the efficiency and competitiveness. MM-Karton does not have production sites outside Europe.

Until the year 2005 the company has not published any separate environmental or corporate social responsibility report. In its annual reports, social issues are reported very briefly and the only quantitative indicators that can be found from these reports are the figures of the average number of employees and some information about the employees' regional distribution. MM-Karton AG has adopted the Austrian Corporate Governance Code, which was introduced in 2002. However, the company has neither taken under consideration the international demand for improving corporate responsibility reporting nor signed up for the Global Compact like many of its competitors in the forest industry. Environmental reporting is also narrower in scope than in other studied companies, and therefore leaves space for improvement.

Interestingly, the company claims: *"human resource matters in a narrower sense are the responsibility of the local companies, while the human resources policy at Group level concentrates particularly on senior management, next generation managers and ensuring an efficient organization"*. Moving of the responsibility matters away from a group level seems to be a common attitude among joint ventures, which consist of many independent subsidiaries. Also, WWF noticed that in many cases, responsibility

related information is spread around and hardly accessible from the stakeholders' point of view (WWF International 2006). Luckily, some of the companies, which have been criticized about poor reporting at a group level, have recently changed their reporting to concern all the business units and areas.

Even though MM-Karton is not a global company, it has production in countries that have very different economic, social and cultural backgrounds compared to those in company's home country Austria. This is especially the case in former countries of Eastern block, where MM-Karton has a few production sites. Therefore, the company should consider more broadly its influence on the local communities and employees in different localities. More detailed data, for example about the employee equality and diversity, is needed. Information about the issues concerning responsibility should be more easily accessible, which would improve transparency and enhance stakeholders' possibilities to evaluate the company and its actions.

5. DISCUSSION OF THE RESULTS

5.1. Stakeholder dialogue

The first goal in this study was to find out the ways, in which companies relate to the communities that they are involved in, particularly in their reporting. In this study, stakeholder dialogue is understood as companies' communication with the different stakeholder groups as well as positive interaction with the local communities. The analysis of annual reports proved that the companies list the stakeholder groups very similarly. In addition to *customers*, *employees* and *shareholders*, also *suppliers*, *governmental authorities*, *mill communities*, *media representatives* and *NGOs* are considered to be the most important stakeholder groups in forest industry by the companies studied.

Even though many of the studied companies take different stakeholder groups into account in their reporting, generally the emphasis is clearly on maximizing the

shareholder-value. One of the precious few concrete promises made by the companies relates to profit improvement (Donner – Amnell 2004b, 238). The most internationalized companies tend to place the economic sustainability as their top priority that the other aspects of sustainability follow. These following examples show how the companies address this goal: “...*the survival of any corporate organization begins first and foremost with financial viability*” (Stora Enso, 2005) and: “*By being a low-cost manufacturer which delivers top quality as well as profitable growth and focusing complete attention on our core business, we aim to deliver the best shareholder value in the paper industry*” (Norske Skog, 2005).

It is worth noticing that the tightening competition in the pulp and paper markets, decreasing price of the pulp and decline in the demand of some paper qualities, have resulted in the low return of capital employed, for many years in a row. This difficult situation naturally affects the reporting and the themes emphasized by the companies. Gaining better profitability, the rationalization of business areas and cost-efficiency are the most important goals for the companies at the moment. Many of the political, societal, economic and cultural changes in the new millennium have challenged the position of the forest industry companies on the map of global business leaders, and the companies themselves cannot be held accountable for all of them. Also, according to Hawkins (2006, 235), too often governments and “eco-warriors” seem to ignore that business has to remain competitive if it is to survive and create wealth. Thus, a more important question is how to combine the competitiveness and the sustainable ways of doing business, since these two aspects are often seen as competing or/and controversial to each other.

According to Hooghiemstra (2000), some earlier studies about the corporate social reporting have shown that the dialogue with different stakeholders, especially with NGOs is more frequent among the companies that have faced more criticism from the civil society. The results of this study revealed that this observation seems to be, at least to some extent, a correct one; even though the companies tend to claim that the reason for improving their performance is not the stakeholder criticism but the

internal change in the attitudes of the industry representatives in general. However, the rise of environmental movements has perhaps had a deeper impact on the companies than is publicly admitted; at least when it comes to the Finnish forest industry companies (Ojala & Lamberg 2005, 111).

For example, Stora Enso is currently paying relatively more attention on the dialogue with the environmental groups than some other studied companies. One possible explanation for this could be that getting involved in land use conflicts, in Upper Lapland for example, has threatened the reputation of Stora Enso. This was the case, especially in the late 1990s, when Greenpeace and the respected German newspaper *Der Spiegel* started to criticize the Finnish forest industry companies and their actions in Upper Lapland. Because of the public debate that followed, the European customers became more interested in the origin of the industry's raw material and the companies started to recognize the power that the different environmental and social movements possess. As a result, the criticized companies have included more information in their sustainability reports about the operations that have been debated in public, as well as information about their efforts to build a reconstructive cooperation with the different stakeholder groups that have been involved in the conflicts. Another common remedy to manage the risk of being accused by environmental NGOs has been the introducing of the forest certifications, for example FSC and PEFC.

However, this is not to say that stakeholder criticism is the *only* reason why the companies pay attention to the reporting of responsibility issues. Some companies, for example Holmen, SCA and UPM have implemented many CSR practices voluntarily and even proactively. According to Aguilera et al. (2005, 25-26), the company managers and their attitude towards CSR implementation is also an important factor, especially when the managers associate CSR practices with economic opportunities, such as the cost reduction and competitive advantage.

Community involvement is understood in different ways, even though most of the companies address their direct or indirect influence on communities. Some of the

companies only settle for accepting this fact, but some of them take it a step further. For example, community studies carried out by the Holmen Company are a good example of the latter strategy.

In the limelight of their high level of awareness, participation of the studied companies in this research could have been more active. After sending two rounds of requests to comment the results, five of the companies replied. Some of the companies provided an opportunity to meet the CSR and communication managers of the corporation in person, and these discussions turned out to be very useful. It is clear that having the same opportunity with the other companies as well would have been as useful. Unfortunately, the lack of time and resources combined with the low interest in this study by the companies, made the assessment of the results slightly one-sided.

Interestingly enough, in 2007, WWF gave a special mention for their excellent reporting to six of the companies analyzed in this study; Holmen, Metsäliitto/M-Real, Norske Skog, SCA, Stora Enso and UPM – Kymmene. That is a significant achievement as 50 forest industry companies were analyzed in WWF's research and only seven of them deserved this special mention (WWF 2007, 5).

5.2. Geographical diversification and social responsiveness

One of the main interests in this case study was to evaluate the linkage between the companies' internationalization and corporate social performance by analyzing eight European forest companies' annual and other reports. The quantitative data was collected from the companies' websites and reports published in 2000-2005.

First of all, collecting the comparable data was a challenging task. The only social indicator that all the studied companies reported respectively was the average number of employees (Figure 7). Many of the companies also reported distribution of employees by country and gender. However, this was not on a very large scale until

the year 2002. The contents of the reports changed on a year-to-year basis within the companies, resulting in some of the indicators being removed and some of them being added during the years. Because of this variation, one should avoid making specific generalizations based on the data collected here. A comparison of the companies is difficult, because all of the companies have their own ways of measuring and performing social responsibility issues. On the other hand, just these significant differences between the companies and their reporting do make it possible for some assumptions and generalizations to be made.

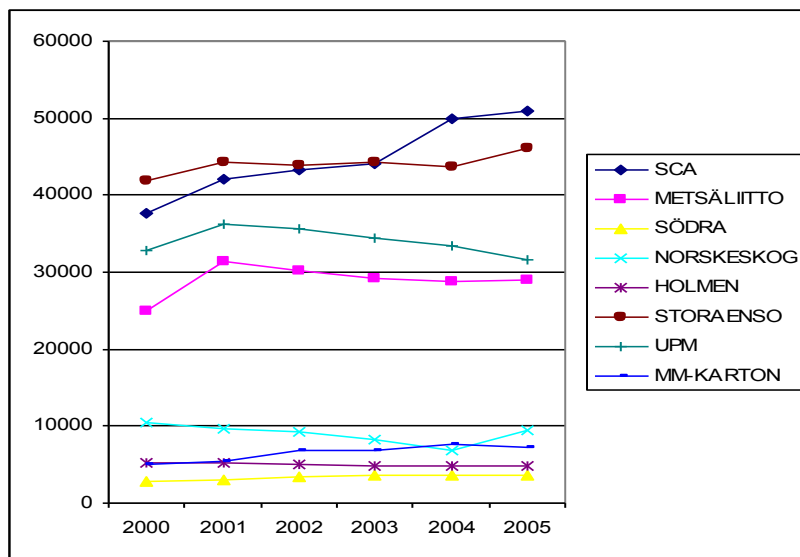


Figure 7. Development of the workforce in studied companies during the years 2000-2005.

All of the studied companies expressed that the generally weak business cycle within the industry has “forced” companies to carry out reorganization processes. At least the low profitability has been used, in general, as the main reason for the closings and redundancies. Even though many of the companies cut their workforce and closed some of their most unprofitable units during 2000-2005, the total amount of employees decreased relatively little. There are two explanations for this; either the companies organized new positions for the same employees in other units, or they were replaced in companies’ new locations. Considering the increasing amount of workforce outside the companies’ traditional locations, the latter explanation seems to be a more likely one.

The companies that reported closings, acknowledged that even though they offered a possibility for the employees to maintain their jobs if they were willing to move, it was very unlikely to happen due to the employees' family ties and other personal reasons. In the cases of closings and redundancies, all the biggest companies, including e.g. UPM, Stora Enso and SCA, reported about the special arrangements aimed at supporting employees. These arrangements included e.g. opening a Job Centre, hiring consultants to help the employees in applying for new jobs, voluntary severance payments, outplacement services and psychological support. UPM claims that even though the closing of Voikkaa facility in 2006 was widely criticized in public, the company has also been acknowledged for the manner, in which it was carried out. During the closing of Voikkaa facility, UPM launched a major programme called “*work to work*” (Työstä työhön) in order to support the employees influenced. According to UPM, this programme is a good example of responsible behavior of a forest industry company (Piironen, 2007).

From the studied companies the most international ones are, not surprisingly, also the largest: SCA, Stora Enso, UPM, Metsäliitto and Norske Skog (Figure 8). Since Norske Skog's way of reporting about the employee distribution was executed in a different way compared to the other studied companies, the data is not displayed here.

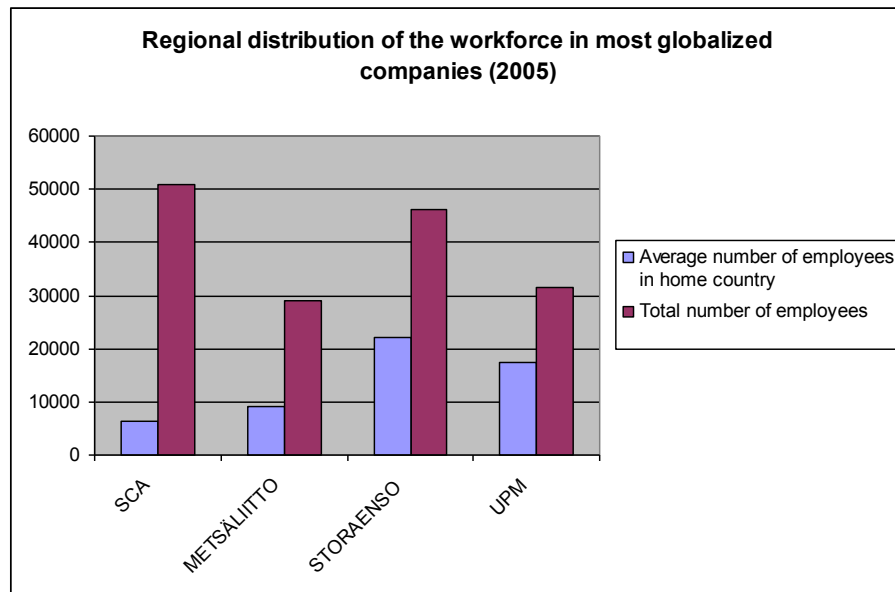


Figure 8. Distribution of domestic workforce in some of the most globalized companies in 2005.

A common feature for all the companies is that the total amount of employees has increased outside their home countries while the development in them has been the opposite. Outside Europe, SCA has invested to US, China and Latin America, others mainly to Russia. Some of the smaller companies, despite that some of them operate in many countries, cannot be considered genuinely global. For example, the Swedish Holmen has activities at least in 19 different countries, but almost 78% of its 4868 employees worked in Sweden in 2005. Södra is likely to operate completely locally, since it does not report any employees or other activities outside Sweden. MM-Karton AG is also purely a European company as all of its mills and production sites are located inside Europe.

Like many of the earlier studies have indicated (Bremmer et al. 2006; Simmerly & Li 2000), also this case study revealed that the degree of internationalization has effects on corporate social reporting. The more globalized companies tend to report about issues related to human resources more widely and accurately than those operating on a narrower geographical scale. Also, the contents of the reports seem to be dependent of internationalization. Companies that operate globally emphasize more universal issues, such as human rights, child labour and equal opportunities, whereas other, more locally operating companies, report smaller-scale issues such as absenteeism due to sickness, employee benefits and climate of the workplace. International companies emphasize their relationship with the local community mainly due the developing programmes and donations, whereas smaller companies emphasize their role as a local employer.

There were also differences between the companies in the implementation of different certification systems, such as Dow Jones Sustainability Index and FTSE4Good. Evidently, certification is more important for the international companies than those operating more locally.

5.3. Internationalization and its effects on economic performance

At the beginning of this chapter, it is necessary to clarify the definition of the profitability, which has been used throughout this research. Profitability consists of the subtraction of the net sales and capital invested. Profitability in the forest industry has decreased as the prices have gone down simultaneously with the growing production costs (Paperiteollisuus 2006, 34). The current demand for the return of the capital invested (ROCE) in the forest industry is, in general, approximately 12-13 %. This figure reflects the consolidation of the international capital markets and is typical for the current quarter economics (Paperiteollisuus 2006, 29). However, some parties perceive the demand for the capital invested to be too high under the prevalent circumstances and claim that profitability consists of only that which is being measured. Hence, what the shareholders assess as profitable may not be as profitable from someone else's point of view (Talouselämä 8.2.2008). Therefore, even the definition of profitability is not self-evident.

Expanding the operations worldwide and growth in production volumes have naturally increased net sales of the companies during the years studied (Appendix 2). However, investments abroad cost a lot, especially in the cases where the company has to start the building of a new production site from the scratch. In these cases, the companies must also invest in infrastructure, logistics and education of the workforce. Because of the massive costs, the companies have difficulties getting high returns for the capital invested, at least in situations, in which the shareholders are expecting a fast operating profit. Together with the other economic problems discussed earlier, the current situation is very difficult in the forest sector at large. With the continuing growth in the volumes of production, the companies should simultaneously gain more profit. The increasing shareholder demand for better return of investments seems to be the driving force behind the current reorganization processes executed in many European forest industry companies. It is noticed in the *Ernst & Young's Global Pulp and Paper Report* that company size and economies of scale do not correlate with

profitability (Ernst & Young 2007, 11). The results of this case study support this conclusion.

The results of this case study indicate that the more specialized companies have better preconditions to survive in the prevalent circumstances. The Austrian MM-Karton AG, concentrated on producing recycled fiber based cartonboard; the Swedish SCA focusing mainly on hygiene products and the Holmen Company producing primarily printing paper, have all succeeded in maintaining the profitability on a more tolerable level than many of their peers (Appendix 3). One common factor these companies share is the focusing on one or two segments, in which they have a strong market position and/or an access to a lower cost base (fiber, labor costs). Another such factor is their focus on the high-end of the market (Ernst & Young, 2007.). The current situation seems to be the most difficult for units producing special printing paper qualities, especially *LWC/MWC*, because of the overcapacity in the European markets. The estimated overcapacity of these paper qualities is 20% and prices have remained more or less flat (Ernst & Young 2007, 23). Many of the units producing these coated mechanical papers are located in Finland and together with the increasing price of imported round wood from Russia and unbeneficial location, in relation to the biggest potential market areas, entitle one to be worried about the future of the Finnish pulp and paper production (e.g. Tekniikka & Talous, 2007b; Ernst & Young 2007, 23).

The analysis of two key economic indicators, net sales and ROCE does not indicate that profitability would have improved significantly during the years 2000-2005, despite the massive foreign investments and cost cutting programmes carried out by many large forest industry companies (Appendix 3). If the economic difficulties of the pulp and paper industry continue, it is likely that the companies will be even more consolidated in the future (Ernst & Young 2007, 23; Itkonen 2007). Another strategic solution for the companies to deal with the situation is to concentrate on the most profitable segments. The examples of SCA and MM-Karton signify the importance of building strong brands and choosing the right business partners (HS 6.11.2006).

SCA's best-known brands include hygiene products, such as *TENA*, *Libresse* and *Libero*, whereas the clients of MM-Karton include globally leading brands, such as *LU*, *Kodak* and *Knorr*. One plausible explanation for the success of these companies could be the creation of strong brands and focusing on the high-end of the production chain. Currently, it seems that the geographical diversification has not had a significant influence on the companies' economic performance. As a matter of fact, in some cases, the influence has been negative when business operations have not turned out according to the company's plans. However, since internationalization has truly emerged only for a few years, it is too early to predict the future outcomes of the increasing geographical diversification.

6. CONCLUSIONS

6.1. Reorganization of European forest industry networks

The purpose of this final chapter is to conclude the study by perceiving the complexity of the *forest industry networks* and multiple actors involved in them by using the framework of ANT theory as a tool for analysis. Kortelainen suggests that *the enroller*, the core force that mobilizes and enrolls other actors to play by its rules, is usually the forest industry company. In order to mobilize others, the company has to create linkages at least to three crucial networks: *forestry landscapes*, *mill communities* and *consumption spaces* that create their own *subnetworks*, which are needed in producing pulp and paper (2004, 108-109). However, there are also other actors in the networks that are not so closely related to forest industry network itself, but still are affected by it. When the expectations of these networks, existing *outside* the industry, are controversial to the ones *inside*, and if these networks possess economic and/or political power or have an access to the media, they start to have influence on the forest industry landscapes.

The recent implementation and changes in corporate social responsibility reporting indicate that the forest industry networks now encounter more demands from the

external actors than before and that the landscape, in which they operate is changing. In terms of ANT theory, this process should be understood as a *translation*. The results of this study indicate that this process has begun only recently, since even the internal actors within the forest industry network understand the concept of social responsibility in different ways. This in turn leads to different ways of implementation. The three important networks, suggested by Kortelainen, exist also in the European forest industry sector. Interestingly, it seems that all of these networks have changed significantly during the past few years and the roles of the different actors are just now being reorganized. However, the networks must be understood as dynamic organisms, changing in time and place, thus making it more a question of the increasing velocity of the change, than the change itself. There are several reasons to be found for this path of development.

Firstly, the economic circumstances within the industry seem to be a major driving force as discussed in earlier chapters. In the view of recent development, it seems that the company itself is no longer the enroller in the European context, but rather the ones that own the company - the shareholders. To some extent, this is a result of changes in the structure of the companies' ownership. This is the case especially in Finland, where the state and also other national institutions, such as banks, used to be the biggest and the most important group of owners of the forest industry companies for a quite long time (Ojala & Lamberg 2005, 107-139). Before the 1960's, the state defined that the primary role of the forest industry companies was to create employment and welfare for the society, even with the expense of company's economic profitability. When the ownership structure changed and the companies first were listed on the Stock Exchange, the different welfare tasks also shifted from the companies to be the state's responsibility. It meant that the companies could once again concentrate first and foremost on the profit maximization (Rytteri, 2002.). Today, the professional groups of the international shareholders enroll the company to make even more profit, which changes the functioning of other networks as well (Donner – Amnell et al. 2004, 255; Lehtinen 2004, 248). However, there is an

increasing tendency towards ethical investing in the stock markets, because some shareholders do not want to be involved in a business that is publicly criticized.

Secondly, the forest industry companies have now greater opportunities to operate on a broader geographical scale than before, because of the ongoing process of globalization. These two factors are changing both the forestry landscapes and mill communities, as the traditional locations of these networks are slowly being replaced. The production of pulp and paper in traditional locations, like the Nordic countries, is becoming more costly for the forest industry companies, which makes it attractive for them to shift production towards countries with an access to cheap fiber. Eucalyptus plantations in South America and large reserves of coniferous timber in Russia are an example of this. Another feature, which contests traditional production sites, is the cheaper labour costs. Thus, translation is taking place both in the networks of the forestry landscapes and mill communities.

Thirdly, changes in the consumption space contest traditional consumption networks. Decreasing demand in Europe and US together with the growing consumption in new regions, especially in Asia, attract forest industry companies to shift the production closer to the new market areas, as well as it attracts new domestic competitors. Furthermore, the changing consumption spaces assign some challenges for social responsibility. Some studies indicate that the Asian customers and other Asian stakeholders pay less attention to the companies' social performance than their European counterparts (Dauvergne 1997, Welford, 2004). According to Welford's research, only 30,4 % of the Asian companies engage in social and or sustainable development reporting, compared with twice that number (64,4%) of the European companies, amongst of 240 companies from 12 countries in Europe and Asia (Welford 2004, 41). A possible explanation could be that the Asian companies lack a demand from the stakeholders to develop their social reporting and policies concerning social responsibility.

On the other hand, because of their experience of implementing CSR practices, the emerging European forest industry companies operating in developing countries can have a positive influence on managing the responsibility issues also in the domestic companies. In principle, the European companies should be more independent from responsibility demands and their national backgrounds when operating outside of Europe, but in practice this is not the case, because of the increasing amount of stakeholders involved (Donner – Amnell 2004b, 237). However, this aforementioned “learning” process will presumably take time because of the underlying cultural, political and historical aspects. In many developing countries the people have bad experiences about the actions of the foreign companies and investors. The local communities are usually rather suspicious and reluctant towards foreign companies, instead of warmly welcoming them and their investments. For example, when Metsä-Botnia tried to involve the Argentinean NGOs to participate in the planning of pulp mill in Fray Bentos, they soon found out that the local NGOs have a culture, in which they do not negotiate with the companies under any circumstances (Seppäläinen, 2007). This indicates that the foreign companies have a lot to learn about their new operating environments.

What about the *wormholes* then, understood as the positions or roles of different networks and actors, within the current map of global forest industry (Kortelainen 2004, 111)? First of all, a defense for the old-growth forests and an opposition to the industrial tree plantations is increasing. More importantly, this is not just done by only the transnationally operating, semiprofessional NGOs, but also on a local level, by the poor and indigenous people, whose livelihood is being threatened by the forest industry. According to Martinez-Alier (2002, 120), the uprooting of eucalyptus and planting of a variety of fruit trees and native trees instead, has become a common practice of the local environmental movements in places distant from each other. The resistance is structural by nature, not instances of the politics of place and identity (see also Lehtinen 2004, 250-252.). Modern technology, especially the Internet, provides a channel for networking between the actors of the environmental movements worldwide, which in turn increases their power and changes their

positionality against the global forest industry. Criticism towards globally operating companies has brought forward questions of alternative use of forest resources and environmental injustice to political agenda, which has already challenged the functioning of the today's forest industry networks and forced companies to improve their social performance (Lehtinen 2004, 254-257). These elements can be considered to be external, while they still are tightly connected to the core networks of the forest industry.

At least in the Nordic countries, another possible wormhole could be formed as a result of mobilization of the employees and/or employee associations. Since the forest industry's positive impact on the local employment has decreased, as have the benefits for the society at large, there are conditions for a *legitimacy gap* (explained in chapter 3.1.). For now, the criticism has been relatively scarce but the increasing public debate indicates that there exist underlying tensions between the society and forest industry companies, which can initiate different forms of protest, such as strikes and public demonstrations. Even though its influence has decreased, the forest industry still is understood to be a nationally important sector in the Nordic countries. That is why there still exists a large range of political and economic regulations that support the forest industry (Donner – Amnell 2004b, 236). According to Näsi et al., corporations, as one kind of social arrangement, require legitimacy to remain functional and long-term relationships with the various communities on which they depend (1997, 300). If the industrial dispute grows among the mill communities that have faced redundancies or closings, protest will have effects on functioning of the current forest industry networks. Although the globalizing companies are not anymore as dependent on the governmental support as they used to be, it is suggested that by enhancing the importance of the wide social responsibility, the companies aim at retaining the public approval and support of the Nordic countries (Donner-Amnell 2004, 237).

6.2. Future challenges

The European forest industry will continue to internationalize, there is no doubt about that. New markets will arise, especially in China, India and Russia (Ernst & Young 2007). Investing and establishing operations to these new regions involve risks as well as a need to downsize activities in the traditional locations, in order to gain better profitability and to create better shareholder-value. Many European forest industry companies are going through a painful reorganization process, including closings and redundancies, which in turn will increase the amount of criticism towards the companies' operations and set them under a magnifying glass in public. Therefore, it is crucial for the forest industry companies to develop their social responsibility practices, so that they will take into account a wide variety of stakeholders and their sometimes conflicting needs. Reporting is the most practical tool for doing this, as the assessment of companies would take too much of resources otherwise. The results of this case study indicate that during 2000-2005, the reporting in Europe - especially in the Nordic countries - has significantly become wider, covering a larger set of issues than earlier. Based on discussions and comments from the representatives of some of the companies, it seems that at least the largest companies are genuinely committed to improve their CSR-practices, as well as their reporting in the future, which is understood to be an important part of their risk management.

Since the circumstances are very different in different parts of the globe, it would be simplistic to assume that the forest industry companies could practice their responsibility in the exact same way everywhere they operate. In some cases, the companies have faced such established policies and/or cultural or social structures that the MNCs' social responsibilities have become very difficult to determine (Rytteri 2002, 171). But instead of just settling for compliance of the local laws and regulations, the companies are able to do more, in order to gain a wide societal approval for their operations. Supporting the local communities by providing jobs, education, tax revenues and participation in nature conservation projects, as well as developing alternative ways of utilizing forest resources, are good examples of a

proactive approach to corporate social responsibility. The more equally the benefits are shared through society the more legitimate is the industry's position, which in turn secures the forest industry companies' survival on a long-scale perspective. In the Nordic model, the sharing of benefits through society as equally as possible has been an affirmation for the society's wide approval. This has been carried out by seeking balance and carefully restraining the elements that have threatened this arrangement (Donner-Amnell 2004b, 230.).

It is important to recognize that socially responsible performance, which is widely practiced among the studied companies, is not necessarily enough if the companies' operations, as well as their consequences, are not actualized according to their pronounced ideology, or if the companies fail to satisfy the stakeholders' needs otherwise (Donner –Amnell 2004b, 228). It is challenging, though, or even impossible, to fulfill the needs of all the stakeholders, but the companies should communicate more widely with the different stakeholders, in order to find a better balance. According to WWF's criteria, only four among the 50 forest industry companies included relevant stakeholder feedback and commentary in their reports. Three of them, SCA, Norske Skog and Metsäliitto (M-Real), were also analyzed in this study (WWF International 2007, 9). Communication with the different stakeholders would clarify their needs more precisely, which could help the companies recognize the weak spots in their reporting. There are also other tools for this purpose, such as GRI's guidelines, but since the circumstances in the operating environments are different for every company, they could gain more relevant information directly from their stakeholders.

6.3. Assessment of the study and recommendations for further investigation

As a qualitative case study, this research aimed at describing the current contents of corporate social responsibility in some of the European forest industry companies. The research process was conducted in constant dialogue with the primary data (company data) and secondary data (social debate in newspapers). In a qualitative

study, the purpose is to approach the topic as comprehensively as possible (Hirsjärvi et al. 2000, 152). In this case study, the comprehensiveness emerged from the multi-theoretical approach and the large amount of data, collected from many different sources, including both quantitative and qualitative information. In a case-specific study, subjectivity can be avoided by using multiple sources of information. Asking the companies to comment on the results of analysis, was an attempt to reinforce the data and, again, to avoid subjectivity. However, since the comments varied and were partially insufficient, it is important to highlight the fact that this study is, to some extent, conditional and may not be repeated in the exact same way. In qualitative research, researcher's own values are present in the research process, because the individual values determine what, and how, some phenomenon should be studied (Hirsjärvi et al 2000, 152). This is true also in this research and one should be careful in making universal generalizations based on the results. However, this study is successful in the sense that it describes and points out some important paths in the current development of the global pulp and paper industry.

The concept of CSR has been approached from many different scientific perspectives, but the geographers have studied the subject relatively little. However, CSR is a topic, which comes very close to the recent geographical research, as it emphasizes the importance of the corporate governance in the age of globalization. Globalization and its effects, both locally and globally, i.e. the process of *glocalization*, has been in the center of geographical research in the recent years. These studies are linked to CSR in many ways. For example, the recent studies about environmental justice relate to questions about corporate social responsibility, as well as the studies concerning linkages between the global economics and local processes (Häkli 1999, 118.). So far, theorizing of CSR has drawn elements from many different scientific disciplines, including legal studies, sociology, ethics, political studies etc. The geographical approach could reinforce the cross-disciplinary theories of CSR in its deep understanding of global processes and their complexity.

Since the degree of internationalization in forest industry is likely to increase, there is also a strong possibility of increasing disputes between the society and the forest industry companies. There exists a call for more case-focused research of these disputes, as they indicate the contradictories between the development of the global economics and local processes. Secondly, the increasing geographical diversification both challenges and changes current positions of different actors in the forest industry networks, which leaves space for further implementation of ANT theory. Reorganization has different and simultaneous effects on the forestry landscapes, industry representatives, governmental bodies, mill communities, employees and local people. Reorganization also creates regional differences, yet at the same time, these differences affect the process as such. This dualistic relationship determines the composition of the global forest industry landscapes and the way that they will be formed in the future.

Spatial-dualistic spaces have traditionally been an important research target in human geography, especially in its structuralistic approach (Häkli 1999, 112-113). Based on these aforementioned observations, it is recommended to investigate the current reorganization processes, as well as corporate social responsibility issues, more broadly in the future by using the methodologies of human geography, especially those drawn from the traditions of structural and critical approach.

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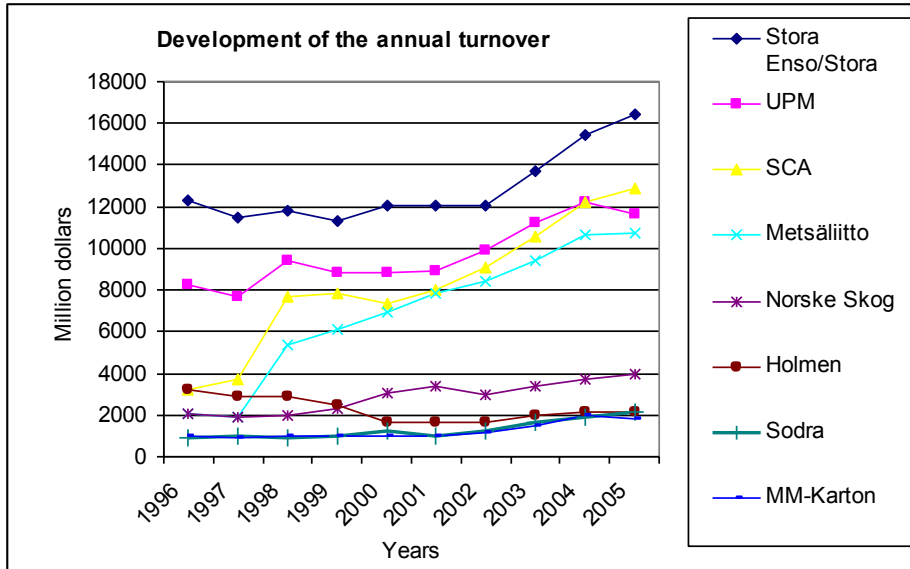
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APPENDICES

Appendix1. Development of the annual turnover in 1995-2005 in case-studied companies.



Appendix2. Development of return of capital employed (ROCE %) in 1998-2005 in case-studied companies.

