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Is the view on structural change outdated?

The goals of enterprises and public authorities differ from another

Active involvement of enterprises needed in developing the forest sector's production structure

According to the modern view, global competition will relocate forest industry production to low cost countries and growing markets. The idea of globalisation-induced structural change in the forest sector is based on assumptions of increasing free trade, control of international politics and diminishing cultural differences. However, respondents to the Future Forum on Forests' survey considered these background assumptions to be partially unrealistic, which should be better taken into consideration in the forest industry's strategic decision-making, for example.

Is the view on structural change outdated?

Respondents to the survey investigating the critical success factors for the future of the forest sector had a very uniform view of the structural change in the Finnish forest sector: Global cost competition and decline in the paper product markets in the western industrialised countries will relocate forest industry production to low cost countries and growing markets. Forest industry production will continue to be significant in Finland, but unprofitable facilities will be shut down as well.

These radical changes should be prepared for by constantly rationalising and adapting the production and by developing products and services that support the business operations. Significantly larger investments in research, product development and the development of new business operations should be made than at present. *So, nothing new under the sun?*

A deeper analysis of the Future Forum on Forests' survey data reveals that the structural change described above is largely based on contradictory background assumptions. The largest contradiction arises from the respondents not regarding the explaining factors of the structural change, i.e. increasing free trade, control of international politics and diminishing cultural differences, as self-evident facts.

83 percent of the respondents estimated that future world politics will be characterised by conflict sensitivity, and half of the respondents believed that cultural interaction in the future will be overshadowed by suspicion. The background assumptions affecting the development of globalisation are in fact assessed to be very different from those affecting the structural change of the Finnish forest sector!

To get to the bottom of this contradiction, the second phase of the survey tested the scenario of uneven globalisation, which was one of the scenarios prepared in the "Alternatives of the Development of Globalisation" survey. In this scenario free world trade will be faced with significant political obstacles, the price development of energy and other production factors will be highly unforeseeable and the forest industry's investments around the world will lead to great success on the one hand while, on the other, production facilities will even be nationalised. It is noteworthy that only five percent of the respondents regarded this scenario, which contains critical elements for the internationalisation of the forest industry, as unlikely to come true.

Uneven globalisation that is overshadowed by suspicion will force the international forest industry to prepare for increasing political conflicts and larger investment risks in the production countries. This will lead to decreasing investment return requirements, shortening repayment periods and decentralising production in order to lessen the risks.

The goals of enterprises and public authorities differ from another

The results of the survey yielded a fourfold model of the future (Fig. 1), which examines the uneven development of globalisation and the forest sector's renewal investments from the different viewpoints of enterprises and public authorities. The following variables were considered to be the most essential ones in the assessments of the forest sector's strategic alternatives in the future.

Small renewal investments + low unevenness in the development of globalisation

This field in the fourfold is closest to the current view of the forest sector's present

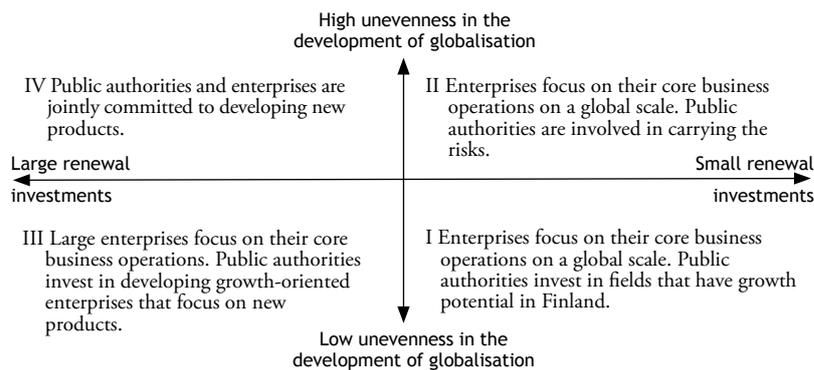


Figure 1. The different starting points of enterprises and public authorities in developing the Finnish forest sector.

situation, in which large forest industry enterprises in particular focus on their core business operations cost-efficiently and on a global scale. Public authorities will invest in R&D and education in fields that offer new possibilities for businesses and well-being to prosper in Finland.

If the forest industry enterprises' returns remain low, they will be forced to make reductions in production and the probability of demergers will increase. The enterprises' weak potential for supporting the growth of businesses and well-being in Finland may diminish the society's investments in the development of the forest sector.

II Small renewal investments + high unevenness in the development of globalisation

Despite the uneven nature of the development of globalisation, enterprises continue to invest in their core business operations. With proper choices of land and skilled risk management, profits from traditional industrial production can be maintained high on some of the growing markets. However, the risks are high and public authorities are hoped to participate in the investment guarantees. In extreme cases production facilities can even be nationalised, leading to loss in value of private investments and realisation of the public investment guarantees.

III Large renewal investments + low unevenness in the development of globalisation

Large enterprises will continue to focus on their core business operations, because new products are not considered significant for the overall business. Public authorities will make investments in growing businesses that focus on developing new products. The significance of the new products can, however, be insufficient for renewing the production in the forest sector.

IV Large renewal investments + high unevenness in the development of globalisation

Enterprises and public authorities are jointly committed to developing new products and business models. The interest of large enterprises is boosted by global instability, which could cause large risks for the core business operations. New products, e.g. liquid bio-fuels for traffic, can be produced on a large scale provided that the political decisions supporting the development of the markets are sufficiently persistent.

On the basis of the survey results, all of the four alternatives describing the future of the forest sector are possible. The most essential thing is to find solutions that enable a transfer from field (I) in the fourfold to field (IV), where enterprises are actively involved in developing the forest sector's production structure in Finland.

Innovation workshop inspires new business ideas

SciTech-Service Oy Ltd organised an innovation workshop in cooperation with the Future Forum on Forests, and the purpose of the workshop was to produce fresh ideas for business in the value chains of packaging and construction.

Publications:

Ståhle (ed.) Five Steps for Finland's Future. Tekes Technology Review 202/2007. www.tekes.fi/eng/publications/Five_steps_for_Finlands_future.pdf

Hermans, Kulvik ja Nikinmaa: Biotechnology as a Competitive Edge for the Finnish Forest Cluster. ETLA B 227.

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