

UNIVERSITY OF HELSINKI

Corporate responsibility in Finnish forest industry SMEs: Practice without preaching?

Master's Thesis
for the examination of Master of Science (Agr. & For.)
Forest Products Marketing

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March, 2010

ABSTRACT

HELSINGIN YLIOPISTO — HELSINGFORS UNIVERSITET — UNIVERSITY OF HELSINKI

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Työn nimi — Arbetets titel — Title

Corporate responsibility in Finnish forest industry SMEs: Practice without preaching?

Oppiaine —Läroämne — Subject
Forest products marketing

Työn laji — Arbetets art — Level	Aika — Datum — Month and year	Sivumäärä — Sidoantal — Number of pages
Master's thesis	March 2010	83 p.+ appendix

Tiivistelmä — Referat — Abstract

Increasing societal demands are driving forest industry companies to evaluate the impacts of their business activities more comprehensively. Corporate responsibility (CR) is not a new phenomenon to the industry sector as environmental considerations have been on the agenda of the firms for decades through the use of forest resources. Globalization and relocations of operations overseas have increased the general public's awareness of the societal effects of business. CR of major forest industry corporations has been studied extensively but a research gap was identified in the case of CR in small and medium-sized (SME) Finnish forest industry companies. The significance of SMEs is expected to grow within Finnish forest industry in the future as mechanical forest industry increases its relative importance.

Based on literature this study suggests that SMEs should approach CR as a strategic issue, i.e., they should evaluate which aspects of this multidimensional phenomenon can affect the firm's ability to reach its objectives. The relatively limited resources of the firm should be allocated to those strategic CR issues.

Empirical primary data was collected by interviewing the line managers of medium-sized Finnish sawmills. The managers were asked to identify sources of competitive advantage within the company, to give their definitions of CR and to discuss the potential of CR as a source of competitive advantage. The findings were congruent with earlier studies on SMEs in other industry fields. The firms often execute CR without identifying it and relate to CR through their key stakeholders (employees, community, customers). The interviewed line managers did not generally perceive CR to have potential as a source of CA.

If CR is to be promoted amongst Finnish forest industry SMEs, robust business cases have to be presented to demonstrate the measurable benefits of CR. Practical examples of what CR incorporates in the smaller firm are required. Consumer studies are necessary to discover the value of CR stewardship perceived by the customers.

Avainsanat — Nyckelord — Keywords

Corporate responsibility, corporate social responsibility, SMEs, sawmilling industry, strategy, competitive advantage, Finland.

Säilytyspaikka — Förvaringsställe — Where deposited

Muita tietoja — Övriga uppgifter — Further information

TIIVISTELMÄ

HELSINGIN YLIOPISTO — HELSINGFORS UNIVERSITET — UNIVERSITY OF HELSINKI

Tiedekunta/Osasto — Fakultet/Sektion — Faculty	Laitos — Institution — Department
Maatalous-metsätieteellinen tiedekunta	Metsätieteiden laitos

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Puumarkkinatiede

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Pro gradu-tutkielma	Maaliskuu 2010	83 s.+ liite

Tiivistelmä — Referat — Abstract

Alati lisääntyvät yhteiskunnalliset vaatimukset pakottavat metsäteollisuusyritykset ottaamaan toimintojensa kokonaisvaikutukset entistä monipuolisemmin huomioon. Yritysvastuu ei ole uusi ilmiö metsäteollisuudessa, joka on puuraaka-aineen käytön vuoksi vuosikymmenien ajan joutunut kiinnittämään erityishuomiota ympäristönäkökulmiin. Globalisaatio ja toimintojen siirtäminen ulkomaille ovat lisänneet suuren yleisön kiinnostusta teollisuudenalan toimien sosiaalisiin vaikutuksiin. Suurten metsäteollisuusyritysten yritysvastuuta on tutkittu paljon, mutta metsäteollisuuden pienten ja keskisuurten (PK-) yritysten osalta yritysvastuuta ei ole tutkittu Suomessa. PK-yritysten merkityksen Suomen metsäteollisuudessa odotetaan kasvavan lähi-tulevaisuudessa, kun mekaaninen metsäteollisuus kasvattaa suhteellista merkitystään.

Kirjallisuuden perusteella tämän tutkimuksen teoreettinen viitekehys esittää, että PK-yritysten kannattaa lähestyä yritysvastuuta strategisena kysymyksenä, ts. arvioida, mitkä tämän monitahoisen käsitteen ilmenemismuodoista ovat niin merkittäviä, että ne voivat vaikuttaa yrityksen kykyyn saavuttaa tavoitteensa. Yrityksen verrattain rajalliset resurssit kannattaa uhrata strategisesti tärkeisiin yritysvastuun ilmenemismuotoihin.

Tutkimuksen empiirinen primääridata kerättiin haastattelemalla keskikokoisten suomalaissahojen linjapäälliköitä, joita pyydettin identifioimaan yrityksen kilpailuedun lähteitä, määrittelemään yritysvastuuta ja kertomaan näkemyksiään yritysvastuun potentiaalista kilpailuedun lähteenä. Tulokset olivat yhdenmukaisia muita teollisuudenaloja koskevien aiempien PK-tutkimusten kanssa. Yritykset toteuttavat laajalti yritysvastuuta, mutta päälliköt eivät juurikaan tunnista sitä. Yritysvastuun toteutuu sidosryhmäsuhteissa (työntekijät, lähiympäristö, asiakkaat). Haastateltujen linjapäälliköiden mielestä yritysvastuu ei juurikaan tuo kilpailuetua yrityksille.

Yritysvastuun edistäminen suomalaisen metsäteollisuuden PK-yrityksissä edellyttää, että toimintojen liiketoimintaedut voidaan kiistatta osoittaa. Tarvitaan myös käytännön esimerkkejä siitä, mitä yritysvastuu pienemmissä yrityksissä sisältää. Kuluttajatutkimuksien avulla voidaan selvittää, miten yritysvastuun merkitys näkyy asiakkaiden valinnoissa.

Avainsanat — Nyckelord — Keywords

Yritysvastuu, yrityksen yhteiskuntavastuu, PK-yritykset, sahateollisuus, strategia, kilpailuetu, Suomi.

Säilytyspaikka — Förvaringsställe — Where deposited

Muita tietoja — Övriga uppgifter — Further information

ACKNOWLEDGEMENTS

This thesis has received funding through the CSR-Forest ("Corporate social responsibility and value creation challenges in global forest industry") project of the Academy of Finland.

I am grateful to my supervisor Professor Anne Toppinen from the Department of Forest Sciences at the University of Helsinki for her excellent guidance and advice.

I wish to express my deepest gratitude to the three forest industry companies who participated in this study by permitting me to interview their employees: the data gained in the interviews constitutes the core of this thesis.

Finally, I want to thank my friends and family for their patience and support during the writing of this thesis.

TABLE OF CONTENTS

1. BACKGROUND OF THE STUDY 1
1.1 The prospects of Finnish forest industry 1
1.2 Corporate responsibility 3
1.2.1 Concept evolution and societal drivers 3
1.2.2 Institutionalized CR 5
1.3. Corporate responsibility in forest industry 8
1.3.1 The drivers and the state of art 8
1.3.2 The need for further research 10

2. PURPOSE AND IMPLEMENTATION OF THE STUDY 12

3. THEORETICAL BACKGROUND OF THE STUDY 14
3.1 Prior research and key concepts 14
3.1.1 SMEs and CR 14
3.1.2 Stakeholder theory 16
3.1.3 Competitive advantage and the resource-based view of the firm 17
3.1.4 A business case for CR? 19
3.1.5 CR in the wider context of strategy 22
3.2. Theoretical framework of the study and its operationalization 28
3.2.1 The theoretical framework of the study 28
3.2.2 Operationalization of the theoretical framework 29

4. RESEARCH METHODOLOGY 32
4.1 Qualitative research, case studies and themed interviews 32
4.2 Validity and reliability 33
4.3 Data analysis 35
4.4 The sample 37

5. RESULTS 40
5.1 Sources of competitive advantage in internal operations 40
5.1.1 Production and end-products 40
5.1.2 Processes 42
5.1.3 Economic responsibility toward owners 42
5.2 Sources of CA related to internal interactions 44
5.2.1 Human resources 44
5.2.2 Organizational structure and communications 45
5.3 CA in external operations 47
5.3.1 Wood procurement 47
5.3.2 Supply chain 49

5.4 CA associated with external interactions 50
5.4.1 Forest owners 50
5.4.2 Customers 51
5.4.3 Local community 52
5.4.4 Society 54
5.5 Sawmill managers and CR 56

6. DISCUSSION 62
6.1 Starting point for the study 62
6.2 Key findings 63
6.2.1 The competitive advantages of medium-sized Finnish sawmills 63
6.2.2 What constitutes CR 66
6.2.3 CR+CA+SMEs = untapped potential 68
6.3 The merits and the weaknesses of the study 70

7. CONCLUSIONS 74

REFERENCES 77

APPENDIX 84

LIST OF TABLES

Table 1. Key international platforms of corporate responsibility 6
Table 2. Social and environmental performance standards and their focus 7
Table 3. The CR activities of a forest industry SME 31
Table 4. Sources of competitive advantage in internal operations..... 43
Table 5. Sources of CA related to internal interactions. 46
Table 6. CA in external operations..... 50
Table 7. CA associated with external interactions. 55
Table 8. Managers' views on CR and its connection with competitive advantage 61

LIST OF FIGURES

Figure 1. Consumption of forest products in the UNECE region 2004-2008 (UNECE) 2
Figure 2. Resource portfolio of the firm (Galbreath 2005) 18
Figure 3. Business benefits from CSR (Weber 2008) 21
Figure 4. The environment of business (from Baron 2010) 23
Figure 5. Phases and steps within the CSR process (O'Riordan 2008) 24
Figure 6. CSR in the context of strategy (Galbreath 2009) 25
Figure 7. Theoretical framework of the study: CR as a strategic issue 28

ABBREVIATIONS

CA: competitive advantage
CoC: chain of custody certificate
CR: corporate responsibility
CSR: corporate social responsibility
EC: European Commission
RBV: resource-based view
SMEs: small and medium-sized enterprises
SCA: sustainable competitive advantage
VRIN: valuable, rare, inimitable, non-substitutable (resource)

1. Background of the study

1.1 The prospects of Finnish forest industry

Global economy witnessed a rapidly expanding and deepening financial crisis which initiated in the United States in 2007 and soon escalated in a way that gravely affected many major economies. Western Europe and advanced Asia were severely hurt by the collapse in global trade and the emerging economies were not spared, either. After a deep recession, the economic growth has now turned positive, pulled by the strong Asian economies. The recovery within the next few years is nevertheless expected to be slow. (International Monetary Fund 2009).

Finnish forest industry had been experiencing difficulties before the global recession began: the overcapacity in paper production in Finland and elsewhere in Europe had resulted in over-supply and poor price development, the demand of sawn-timber in the main European markets had diminished and there were uncertainties regarding the Russian roundwood imports (Finnish Forest Research Institute). Paper industry has been going through a structural transition and the global economic crisis has hit the industry hard at a time when it was already vulnerable. Production in North America and Europe fell by 17 per cent and prices continued to fall in 2008. The drop in housing starts led to a decrease in the demand for sawn softwood, which had a disastrous impact on the industry, with the production falling by a fifth in the U.S. and by almost 10 per cent in Europe. The overall consumption of forest products in the UNECE region fell by 8.5 per cent in 2008 (figure 1). The effects have been severe for the people working within the industry and the impact has been multiplied in their communities. (UNECE/ FAO 2009).

The aggregate turnover of Finnish forest industry decreased almost 30 per cent during the second quarter of 2009 and the production declined by a third when compared to the figures from the previous year. The economic situation in Finland continued to be exceptionally difficult, even though the steepest descent appears now to be levelling out. After the long decline, the industrial production is at a lower level than it has ever been

in the 2000s. The global slump is affecting all main industry sectors but the situation is particularly bad for metal and forest industries. (Statistics Finland).

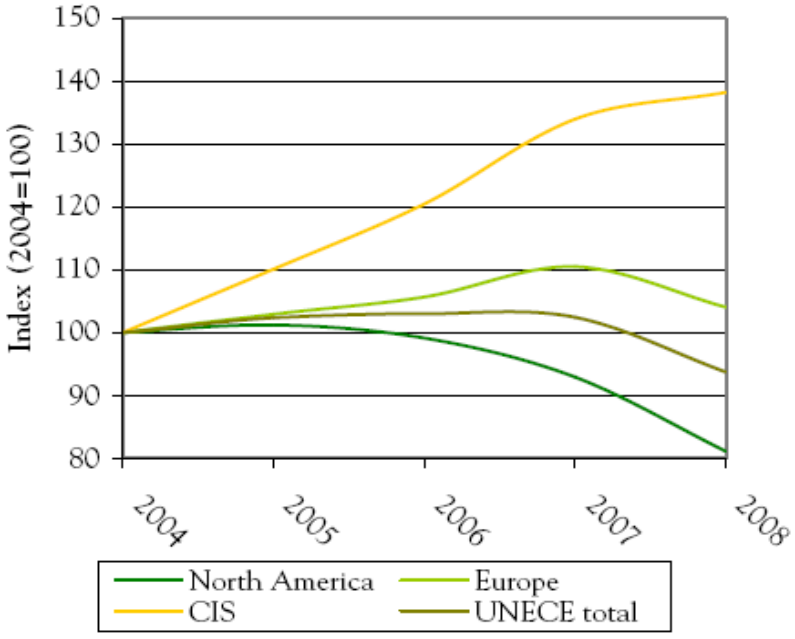

Figure 1. Consumption of forest products in the UNECE region 2004-2008 (UNECE)

Finnish Forest Research Institute has published an outlook for Finnish forest industry's production and wood consumption until 2020 (Hetemäki & Hänninen 2009). Pulp and paper industry production is predicted to decrease by about one third and the wood processing production by 20 per cent from 2007 to 2020. Wood products consumption is anticipated to slowly increase in Finland's main export markets in Europe, but Finnish industry will not be easily able to maintain its market share as producers in competitor countries with lower production costs and lower roundwood prices will fare better. The turnover of wood products industry in Finland may, however, increase if the share of more value-added products can be boosted. The relative importance of wood products industry is likely to increase in the future, whereas the relative importance of pulp and paper industry is likely to decline in Finland. Hetemäki and Hänninen (2009) advised that forest policy should be directed to improve the prospects of wood products industry and energy industry utilizing forest biomass, as these sectors appear to be increasing their relative importance in the domestic wood processing.

Finland's national forest programme 2015 (Finnish Ministry of Agriculture and Forestry 2008) announced targets for the future of the forest sector. By 2015, Finland should be a world pioneer in sustainable forest management, new competitive products and services have been developed, domestic wood use has grown significantly and forest biodiversity has increased. The competitiveness of the forest industry is based on value-added, customer-oriented products. Small and medium-sized enterprises (SMEs) will be supported to master the whole value chain from forest to markets, and research and development will be utilized to promote their growth and internationalization.

The European Commission (EC) defines a SME as a business which employs fewer than 250 people and has an annual turnover not exceeding €50 million and/or an annual balance sheet total not exceeding €43 million. Based on ownership, the enterprises are further divided into autonomous, linked and partner enterprises. (European Commission). Forest industry in Finland is heavily concentrated: in capital intensive pulp and paper industries, SMEs generated a mere 3 per cent of the industry sector's turnover but in wood products industries their contribution was 35 per cent in 2007. The turnover of the SMEs was some 3.2 billion euro which constituted 14 per cent of the aggregate turnover of Finnish forest industry. Of the 2700 forest industry companies in Finland in 2008, only thirteen were larger firms employing more than 250 people; SMEs employed 19 000 people which was one third of the forest industry workforce. (Finnish Forest Industries Federation, Statistics Finland).

1.2 Corporate responsibility

1.2.1 Concept evolution and societal drivers

Concepts "corporate responsibility" (CR) and "corporate social responsibility" (CSR) are used interchangeably in the text depending on the use in the original source.

The history of CSR in formal writing is about 50 years old. In the 1950s, the concept more commonly used was "social responsibility". Large businesses were considered powerful decisions makers and the actions of these firms could have an effect on the

surrounding society. Definitions in the following decades have expanded and proliferated, alternative and complementing theories have emerged and a vast amount of empirical research has been conducted. (Carroll 1999). Differences and similarities between CSR and stakeholder theory, corporate citizenship, corporate social performance, sustainable development and business ethics have been analyzed; additional concepts such as triple bottom-line, corporate governance and accountability have emerged; safety, product liability, human rights, codes and corporate philanthropy have been discussed in the context. Over the decades, more than a hundred theories and models have been suggested to describe how ethical issues in business should be defined and managed. The explosion of concepts has lead to an escalated ambiguity and imprecision: "CSR has evolved from a vague to a confused notion" (Fassin et al. 2007, p.2). The confusion with the concepts increases further when academic literature is copied into business life: the immense literature offers little practical guidance to executives and the references to CSR in the value statements of corporations are increasingly muddled-up (Fassin et al. 2007).

For the purposes of this study, **corporate responsibility (CR)** is defined as

> "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis"

This is the definition of the European Commission for "corporate social responsibility" (European Commission), but the word "social" is omitted from the definition used in this paper so that it would not imply dominance by the social aspects.

In order to understand corporate responsibility, it is important to look at the changes and pressures that are shifting the balance of power between the business, the state and the civil society. This, in turn, alters the roles and the responsibilities of businesses. Two phenomena at the heart of this process are globalization and the increasing environmental demands for sustainable development. (Burchell 2008).

Globalization evolves through three key domains of activity: the economic, the environmental and the political. The economic domain is the principal driving force of contemporary globalization: trade barriers have fallen and markets have become global for many goods and services. No national economy can afford to be insulated from the

global competition. The effects of globalization on the environment manifest, for instance, in increased pollution and greenhouse gas build-up brought on by resource-intensive industrialization. In the political domain, local decisions and actions can rapidly obtain worldwide ramifications. Correspondingly, global political developments can have almost immediate local consequences. (Held & McGrew 2008).

Sustainability is concerned with the effects of current action on the subsequent options: if resources are exhausted in the present, they will not be available in the future. Sustainability implies that society must not use more than can be regenerated. **Accountability** comprises the organization's recognition of the impact of its actions and the acceptance of responsibility for these actions. **Transparency** entails measuring and reporting corporate actions. Due to the emergence of digital technology, citizens have improved opportunities to use their influence at global level. International companies simply cannot afford to be involved in social or environmental scandals. (Cramer 2006).

1.2.2 Institutionalized CR

One of the defining moments in the history of CR was the report published in 1987 by the **World Commission on Environment and Development**, convened by the United Nations. The report, "**Our common future"** (generally known as the Brundtland report) considered various threats to environment and development, highlighted the need for sustainability and discussed the role of international economy in achieving the targets introduced. (United Nations). Various intergovernmental institutions, trade organizations, multi-stakeholder organizations and individual companies have since composed guidelines and standards for CR; some key platforms are briefly introduced in table 1 on page 6.

Table 1. Key international platforms of corporate responsibility

CR platform	Scope of activities
The World Business Council for Sustainable Development (WBCSD)	Established in 1995, this global association of some 200 companies provides a forum for the companies to address business and sustainability issues. WBCSD participates in related policy development and promotes the business case for sustainable development.
Organization for Economic Co-operation and Development (OECD)	OECD has published (2000) guidelines for multinational enterprises to give recommendations regarding disclosure, environmental and social performance, competition and protection of consumer interests.
United Nations Global Compact (UNGC)	A policy platform and a practical framework for companies committed to sustainability and responsible business practices. A variety of management tools, resources and programs are available. Established in 2000, it currently has more than 5200 corporate participants in over 130 countries.
The European Commission (EC)	Several publications, policies, projects and frameworks have been created, e.g., the green paper **Promoting a European framework for Corporate Social Responsibility** (2001), the **Multi-stakeholder Forum on Corporate social responsibility** (2002) and **the European Alliance on CSR** (2006) which is a business-lead initiative supported by the EC.
International Chamber of Commerce (ICC)	Policies and codes on responsible business conduct (2002), reporting (2005), supply-chain responsibility (2007) and human rights (2008).

A remarkable growth has occurred in the number of companies who report publicly on their social and environmental performance. CSR reporting first reached some prominence in the 1970s, but environmental reports started appearing in significant numbers in Europe twenty years later, probably due a number of environmental catastrophes of the time (Bhopal, Exxon Valdez). The highest reporting rates are currently in large companies that operate in "sensitive" industrial sectors, i.e., mining, chemicals, oil, gas, forestry, pulp and paper industries (Owen & O'Dwyer 2008). **Global Reporting Initiative** (1997) has produced the most widely used sustainability reporting framework in the world. This framework articulates the principles and indicators for measuring and reporting the economic, environmental and social performance of an organization. Sustainability reporting guidelines are the main output of the framework; the most current version **G3 Guidelines** was released 2006. The guidelines give

recommendations about report content, quality and boundaries, in addition to standard disclosures on strategy, performance indicators etc. (Global Reporting Initiative).

Various accountability standards have been developed to measure the social and environmental performance of businesses (table 2); a guideline encompasses guiding principles whereas a standard discloses the expected output (Cramer 2006).

Table 2. Social and environmental performance standards and their focus

Standard	Focus
SA8000	Social standard designed to deliver improved social performance to businesses and their supply chains (Social Accountability International)
AA1000-series	Stakeholders must be able to influence the business decisions that have an effect on them; corporate decision makers should be clear about the significant matters; organizations should aim for transparency (AccountAbility)
ISO14000-series	A management tool for any size or type of an organization to implement a systematic approach to environmental issues, to identify and control its environmental impact and to continuously improve environmental performance (International Organization for Standardization)
ISO 26000	Provides guidelines for social responsibility (will be published in 2010); this guidance standard will not include requirements and therefore it is not a certification standard (International Organization for Standardization).

The significance of CR to smaller enterprises has been recognized both by governing bodies and by academia. SMEs are the prevalent enterprise form in the European Union, both in absolute numbers and in their contribution to gross domestic product and employment as some 99 per cent of businesses in Europe – 20 million enterprises – are small or medium-sized. In 2006–2008, the EC co-financed a programme through which some 3000 enterprises learned how to implement CSR to innovation and value creation. Vice-president Verheugen addressed the closing conference of the programme*:*

> SMEs are the beating heart of Europe, both economically and socially… Although the terminology of CSR may be new to many SMEs, the concept of behaving responsibly and contributing to society is not. But more can and should be done

Many studies have shown that the corporate responsibility concept is somewhat difficult for SMEs to enunciate even though the companies, in effect, may execute CR. Murillo and Lozano (2006) studied SMEs that had been recognized and awarded for their social and environmental practices; regardless, the companies had difficulties in defining the concept and had inefficiencies in communicating with internal and external stakeholders of their best practices. Similar results and conclusions were reached by Taipalinen and Toivio (2004): the concept appeared rather vague to Finnish SME entrepreneurs, yet they applied the principles of CSR in their operations. Jenkins (2006) interviewed SME managers and deduced that in order to succeed in business context, the CSR concept needs to be translated into practicalities, activities need to be targeted and integrated into all operations and enterprises have to able to recognise its business benefits.

1.3. Corporate responsibility in forest industry

1.3.1 The drivers and the state of art

Several factors contribute to making CR an imperative topic for the forestry sector. Societal expectations regarding the use of forest resources have driven forest industry companies to adopt CR practices and thus demonstrate their commitment to sustainability. The growing trend towards consolidation and globalization of the industry has had a similar effect. Adoption of CR practices minimizes the risk of public criticism, the lack of transparency and the risk of a decreasing market share in some markets. In forest industry, environmental issues have been given priority over social issues, but the sector appears to be moving towards a greater balance among environmental, social and economic responsibilities. (Vidal & Kozak 2008b).

Social responsibility was a corporate issue in Finland some 50 years ago, when industries were considered the centres of their community: companies built schools, churches and infrastructure, and provided healthcare and social welfare. The role of industries has since shifted to the government. (Panapanaan et al. 2003). In a recent study by Mattila (2009), the employees of a multinational Finnish forest industry company were interviewed on their views on the CSR aims of the firm. Workers and

middle-managers locally expressed dissatisfaction with current practices of the firm: they felt that CSR is for "outsiders" and not for the employees and the surrounding community. The employees in the head office of the company, on the other hand, had reached the conclusion that profits depend on the public opinion, which creates pressure to maintain a good corporate image.

The recent extending of forest industry operations to new geographical areas in pursuit of low labour and raw material costs has had socio-economic implications for both exporting and importing countries. It has provoked public debate because often the establishment of new production units overseas has forced companies to rationalize existing domestic operations. Public debate has further broadened to cover social viewpoints, e.g., employee welfare and interaction with local communities. (Panwar et al. 2006).

One of the most common methods for conveying CR in the sector is forest certification, which entails third party verification for socially and environmentally responsible forestry practices, i.e., sustainable forest management. (Vidal & Kozak 2008b). PEFC (**Programme for the Endorsement of Forest Certification Schemes**) is a global umbrella organisation founded in 1999 for the assessment and mutual recognition of national forest certification schemes. National schemes are supported by 149 governments in the world, covering 85% of the global forest area and making PEFC the largest certification system in the world. Finland's national program is FFCS – **Finnish Forest Certification Scheme**. (Programme for the Endorsement of Forest Certification Schemes). FSC – **Forest Stewardship Council** (1993) is a certification system currently present in 50 countries. The FSC label provides a link between production and consumption of forest products and enables consumers and businesses to make decisions that benefit people, the environment and business. (Forest Stewardship Council).

The current CR reporting in forest industry was preceded by environmental reporting attributable to the increased environmental consciousness of the 1980s. At the time, the industry experienced pressure to disseminate information about its environmental actions and impacts. Separate annual environmental reports began to be published in the early 1990s and in a few years, most European forest products companies regularly

published environmental reports. More recently the companies have started to publish more comprehensive responsibility reports, addressing economic, environmental and social aspects. (Panwar et al. 2006, see also Vidal & Kozak 2008b). An analysis of the corporate reporting of ten largest global pulp and paper companies found little regional diversification between the enterprises (Mikkilä & Toppinen 2008).

Forest industry is a business sector where operations have a direct impact on the natural environment, which makes it an easy target to public criticism. CR is thus gaining momentum as a source of legitimacy and as a means for alleviating threats. Forestry sector also has to embrace different, often conflicting stakeholder pressures, which is another incentive for CR investments. Large multinational forest industry companies are exposed to a more intense public scrutiny and their incentive for corporate responsibility is strong, but smaller companies can also be innovators in adopting CR practices. (Vidal & Kozak 2008a). The size of the company does not matter in the advanced stages of ecological stewardship as these stages require innovation and knowledge which are unrelated to size. A small enterprise can thus create a competitive niche in sustainable product design or business model. (Sharma & Henriques 2005).

1.3.2 The need for further research

Earlier in this paper it has been established that an impressive amount of literature on corporate responsibility has been composed, yet some major questions remain unanswered, e.g., what the concept stands for in absolute terms. Majority of empirical research on CR focuses on major corporations. Based on existing research on corporate responsibility, more pragmatic approaches to CR appear to be a wish of both the academic and the business community (e.g. Taipalinen & Toivio 2004, Fassin et al. 2007).

Finnish forest industry is facing major competitiveness challenges currently and in the long-term, and any means to alleviate the situation need to be considered. Small and medium-sized companies are already important to Finnish forest industry and their importance is expected to grow in the future. Corporate responsibility of SMEs within forest industry has not been studied in Finland. Earlier research suggests that SMEs generally are unclear about what CR is, how it should be executed, and what potential

business benefits it incorporates (Spence & Lozano 2000, Lähdesmäki 2005, Jenkins 2006, Murillo & Lozano 2006). More specifically, case studies are needed to help SMEs observe the specific practices that impact profitability and performance; a solid body of evidence makes businesses more likely to get involved and adopt CSR practices (Perrini 2006).

Furthermore, the line managers of smaller firms appear to be a "silent" stakeholder group, at least based on the very scarce research literature focusing on them. Yet they execute the company strategy every day by designing the products, developing the processes and delivering the products and services. They also have close working relationships with several other stakeholder groups both inside and outside of the firm. One can safely assume that these managers are highly motivated to secure the long-term survival and success of the firm; therefore it can also be assumed that they would be willing to learn about corporate responsibility – provided that it can benefit the business. The values and the opinions of these managers may be "true" indicators of the "true" values of the organization whereas corporate communications can be moderated by market and societal expectations. In this study, the line managers of medium-sized Finnish forest industry companies are interviewed about their views on the sources of competitive advantage of the firm and on their insights on CR. It is essential to gain the input of these professionals when looking into ways to utilize the potential of corporate responsibility in SMEs.

2. Purpose and implementation of the study

The purpose of this study is to consider how engaging in corporate responsibility activities can benefit Finnish forest industry SMEs. A theoretical model on how to approach CR in SMEs is built based on existing literature. Primary empirical data is collected from the line managers of medium-sized forest industry companies. The managers are interviewed regarding their perceptions on CR and the current sources of competitive advantage of the firm. The knowledge gained in this study can help forest industry companies to address CR more comprehensively and effectively; this, in turn, supports the competitiveness of Finnish forest industry in the long-term.

Empirical research questions are

1. As experts of products, services and processes, how do the line managers of forest industry SMEs perceive the current sources of competitive advantage of the firm?

2. How do the managers define corporate responsibility in general terms and how do they think is it currently implemented by the company?

3. How do the managers perceive the potential of CR as a source of competitive advantage – do the different dimensions of it benefit the business now and do they expect it to benefit the business in the future?

Additional point of interest is to analyze if any of the sources of competitive advantage identified by the informants can also be considered a form of corporate responsibility – either by the interviewed managers themselves or based on the existing literature.

The study will be implemented by following these steps:

A. The evolution of corporate responsibility and its significance to forest industry is reviewed based on literature; the need for further research on CR in Finnish forest industry SMEs is established.

B. A theoretical framework is constructed to suggest how SMEs could approach CR.

C. The theoretical frame is operationalized into specific CR actions and outputs of forest industry SMEs.

D. A themed-interview questionnaire is designed based on the operationalization.

E. Three medium-sized companies are selected for a case study based on their dissimilar product portfolio and recognition of CR (based on corporate communications).

F. Three themed interviews per company are conducted and analyzed.

G. Results are discussed and the theoretical framework will be assessed in the light of the information gained from the empirical data. The significance of the study to existing CR literature and to industry will be evaluated. Further research topics are suggested.

3. Theoretical background of the study

3.1 Prior research and key concepts

3.1.1 SMEs and CR

In 2002, the European Commission published the report **"European SMEs and social and environmental responsibility".** Managers of more than 7600 businesses across Europe had been surveyed regarding the company's relationship with its external stakeholders. At the time, half of the SMEs were involved in external socially responsible causes but the activities were unrelated to business strategies. Managers stated "ethical reasons" as the grounds for their involvement but business benefits such as customer loyalty and good relations with the community and authorities were also mentioned as motivating factors. Participation in voluntary environmental activities was limited; involvement was justified with market demands from customers – especially subcontracting relationships – and the desire to obtain competitive advantage. (European Commission).

Abreu and David (2004) further analyzed the aforementioned EC survey and discussed how social responsibility is – or should be – an operative cliché; the authors suggested that experience and examples of different practices could bolster the development of technical knowledge. Smaller businesses confront CSR issues in different ways than multinationals: the scale and the magnitude of corporate social impact, resource capabilities, competitive pressures and market strengths vary greatly depending on the size of the firm (Fassin et al. 2007). Majority of academic research in management literature has been conducted within larger corporations, which also applies to literature on corporate social responsibility and business ethics.

Graafland (2003) compared small and large companies' strategies and instruments for organizing CSR and discovered large companies to prefer an integrity strategy where values are defined without control or sanction mechanism, whereas small enterprises prefer a dialogue strategy: they try to learn from stakeholders which aspects of CSR are the most important to realize. Perrini et al. (2007) also compared SMEs and larger enterprises, and discovered larger firms to be more willing to define and implement

specific CSR strategies. Sweeney (2007) found the volume and the range of CSR actions to be more substantial in larger firms, whereas SMEs described CSR as conducting business in a responsible manner, more specifically contributing to the local community. SMEs stated added costs as the only barrier to CSR engagement; additionally, the author discovered smaller firms to have some difficulties in articulating the activities they were involved with. Pressure from a supply chain buyer can boost the role of a smaller firm to act as a change agent for CR (Jorgensen & Knudsen 2006).

Nielsen and Thomsen (2009) studied CSR in SMEs from corporate communications perspective. Middle managers regarded CSR more as an ethical and morals issue, instead of a strategic instrument. Communicating CSR explicitly to the external stakeholders of the firm was seen as a particular challenge by the authors. Fassin (2008), on the other hand, has argued that while there is an increased pressure for SMEs to report CSR practices, formal reports and procedures do not validate CSR or prove ethical behaviour, and the absence of formalised reporting does not indicate absence of responsible behaviour. Many SMEs feel there is a discrepancy between "the idealistic CSR communications" of some larger companies and the actions of these corporations.

The commitment of top-level management is essential to the success of CSR in SMEs. In larger companies, CSR is driven by the mid-level managers of human relations or external relations, although supported by executives. In a smaller business, the owner–manager frequently is both the driver and the implementer of company values. (Jenkins 2006). Wiklund and Shepherd (2003) have found that an entrepreneurial strategic orientation of the firm, i.e., innovativeness, proactiveness and risk taking enhances the positive impact that knowledge-based resources have on performance. As a result, some firms possess the ability to utilize their resources in identifying and responding to environmental cues earlier than competitors, possibly gaining the first-mover advantages.

Jenkins (2006) made observations about the characteristics of SMEs which can benefit them in adopting corporate social responsibility. Small and medium-sized enterprises are adaptable and flexible and can therefore respond quickly to changing circumstances. They may, for instance, be able to take advantage of new markets for products that incorporate social or environmental value. SME companies are often innovative, which

can be applied to innovative CSR approaches. Communications in SMEs are more fluid and information can be efficiently spread across the organization. Leaner management structure allows the involvement of all employees in CSR programmes. The benefits of any CSR related actions are felt more immediately.

3.1.2 Stakeholder theory

A company interacts with a number of constituencies, i.e., the employees, the customers and the general public. If these constituents have an interest or a "stake" in their relationship with the company, they are called stakeholders. Some stakes – like employment contracts or shareholder voting rights – are protected by law, but most stakes are protected by a relationship of mutual advantage. A firm attends to the needs of stakeholders because it is advantageous to do so and the stakeholders attend to the interests of the firm because they benefit from it. (Baron 2010).

The early development of the stakeholder theory is credited to R. Edward Freeman, whose definition of a stakeholder was "any group or individual who can be affected by the achievement of the firm's objectives" (Freeman 1984, p.25). Later Freeman (2002) categorized owners, management, local community, customers, employees and suppliers as *narrow stakeholders,* i.e., groups that are vital for the survival and success of the corporation. Management plays a special role in a modern corporation. On the one hand, managers are employees, but on the other hand, they have a duty to safeguard the welfare of the corporation. Management – and especially top management – must watch over the health of the company, which involves balancing the conflicting demands of multiple stakeholders.

Mitchell et al. (1997) reviewed the evolution of the stakeholder theory and found a "maddening variety" (p.853) of ways to identify stakeholders: primary or secondary stakeholders; owners and non-owners of the firm; capital owners or owners of less tangible assets; actors or those acted upon; those having a voluntary or an involuntary relationship with the firm; rights-holders, contractors or moral claimants; resource providers or dependents of the firm; risk-takers or influencers; and legal principals to whom agent-managers bear a fiduciary duty. Almost anyone can affect or be affected by the actions of an organization. The narrow definitions indicate the pragmatic reality that

enterprises cannot attend to all actual or potential claims and must employ occupy some ranking system.

To facilitate stakeholder identification and the evaluation of stakeholder salience, Mitchell et al. (1997) argued that managers should gauge the power, the legitimacy and the urgency of the stakeholders. These attributes help the managers to decide "which stakeholders do really count" (p.882). Parent and Deephouse (2007) explored how managers at different hierarchical levels identify and prioritize stakeholders. The evidence of the study supported a positive relationship between stakeholder salience and the number of associated attributes (power, legitimacy, urgency), with stakeholder power as the primary driver of salience. Hierarchical level of the manager had a positive connection with number of stakeholders identified. Respectively, people working on the same hierarchical level identified similar stakeholders.

3.1.3 Competitive advantage and the resource-based view of the firm

The competitive advantage concept was conceived by Michael E. Porter (1980) who suggested that in order to outperform its competitors the firm must pursue one of the three generic business strategies: cost leadership, product differentiation or focus. A firm has a **competitive advantage** (CA) when it implements a value creating strategy not simultaneously implemented by a current or a potential competitor; a firm has a **sustained competitive advantage** (SCA) when it implements a value creating strategy, which is not being implemented simultaneously by an existing or a potential competitor and the benefits of the same strategy cannot be duplicated by the competitors (Barney 1991).

The resource-based view of the firm (RBV) is based on the assumption that resources are not evenly distributed across all firms and these resources may not be perfectly mobile. SCA can be obtained by a firm that possesses a resource that has the following attributes: it is valuable (exploits opportunities and/or neutralizes threats in the firm's environment), rare (amongst current and potential competitors), inimitable and non-substitutable, i.e., there are no strategically equivalent substitutes readily available to the competitors. Strategic resources include assets, capabilities, attributes, processes and

knowledge; they are controlled by the firm and utilized to implement strategies (Barney 1991).

Galbreath (2005, see also Galbreath & Galvin 2008) has categorized resources into tangible and intangible assets and capabilities (figure 2). Tangible assets are factors that the firm reports on its balance sheet. They can be further divided into physical and financial assets, e.g., cash, financial investments, land, physical structures and raised capital. Intangible resources consist of intellectual property (e.g. copyrights, patents, trademarks, and designs), organizational assets (e.g. human resource policies, organizational structure) and reputational assets (company, product and service reputation). Capabilities reflect the firm's knowledge capacity; they include the know-how of the managers and the employees, and the collective knowhow in managing external relationships.

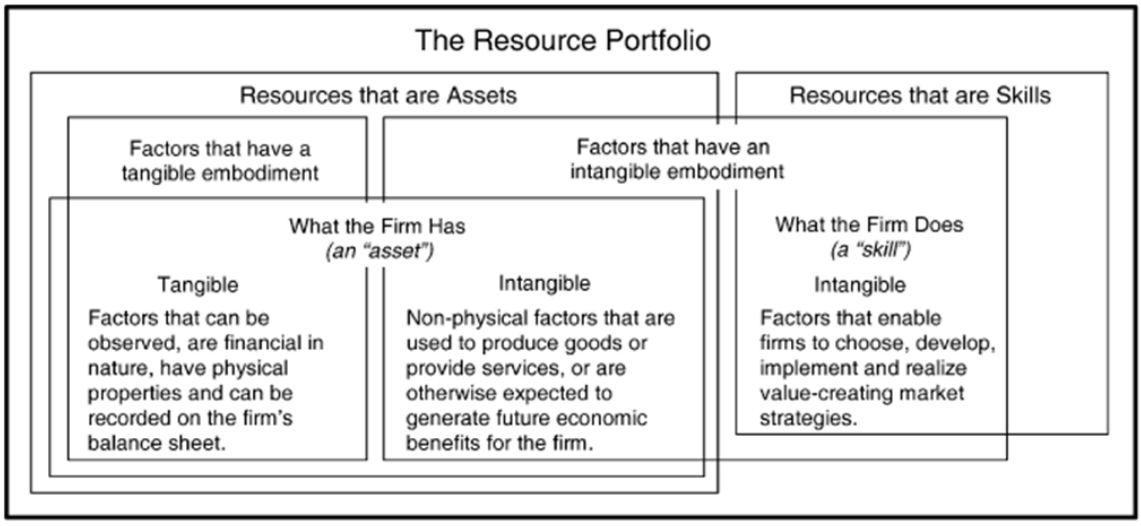

Figure 2. Resource portfolio of the firm (Galbreath 2005)

Sources of sustainable competitive advance in forest industry were analyzed by Bonsi et al. (2008), who also approached the topic from the resource-based view. The authors identified innovation, branding, well-designed processes and knowledge (management, technical etc.) as sources of SCA. Comprehension of the operating environment and the impact it has on the firm is a key capability. Focusing on market niches and providing

excellent customer service in these markets also benefits the firm in a way that competitors cannot easily imitate.

Lähtinen (2009) utilized the resource-based view of the firm while investigating the usage decisions and financial performance of Finnish large and medium-sized sawmills. Several tangible and intangible resources form the resource-pool of a sawmill, beginning with a favourable location near customers and business partners, and extending to quality systems and the total service offering of the firm. The results of the study indicated that the resources associated with raw material, reputation and services, collaboration and technological know-how had the most influence on the financial performance of the sawmills. According to Lähtinen (2009), the resources most valued by managers did not always correspond with the best financial performance: some of the least valued resources, in effect, proved to be strategic resources and vice versa. The author recommended that managers should consider less conventional resources in their strategic planning while seeking to enhance competitiveness. Intangible resources should be employed to create value added.

3.1.4 A business case for CR?

Kurucz et al. (2008) argue that some kind of business case has to be made for CSR in order to gain attention and support from the business community. In business language, a "business case" is a pitch for an investment that promises suitably significant returns over time to justify the expenditure. The business case for CSR is that a company can do well by doing good; Falck and Heblich (2007) claim that this is especially true when CSR is regarded as a long-range plan of action. If a company discovers the emergence of social trend before the competitors, it can gain first-mover advantage by establishing itself at the forefront of the issue. Management needs to evaluate which stakeholders should be considered – and also, how much is at stake. The strategic practice of CSR involves a long-term shareholder value approach, which, in turn, implies a more long-term view of profit maximization. Cochran (2007) has remarked that possibly the most important intellectual breakthrough regarding modern CSR conceptions is that socially responsible activities can be – and should be – used to boost the bottom line.

Weber (2008) has identified five clusters of business benefits that can originate from CSR actions:

- Positive effect on **image and reputation**, which can enhance the competitiveness of the firm. Image is the mental picture of the company, influenced by communications messages. Reputation, on the other hand, evolves over time and is influenced by the consistency of the company performance.
- Positive effect on **employee motivation, retention and recruitment**, either through improved reputation or directly, as a result of a better work environment and the opportunity to participate in CSR activities. Employee satisfaction can result in lower absenteeism according to Hammann (2009).
- **Cost savings** as a result of, for instance, technological innovations leading to operational efficiency (see also Hillary 2000, Cowe & Hopkins 2008, Epstein 2008) or improved capital access with sustainability-oriented investors.
- **Increased revenue** through higher sales and market share, either through image or directly, through CSR-driven product or market developments. Better relationships with customers can also improve customer retention (Hillary 2000) and reduce their price sensitivity (Hammann et al. 2009).
- **Risk reduction or management**, e.g., avoidance of negative press, unwanted NGO attention and customer boycotts. Improved stakeholder dialogue contributes to the same end according to Hillary (2000).

Weber (2008) divides the business benefits of CSR into monetary and non-monetary benefits (figure 3). Monetary benefits include direct financial effects and other benefits that can be measured in monetary terms, e.g., an increase in brand value. Non-monetary benefits are not directly measured in monetary terms but nevertheless affect the competitiveness and financial success of the company. Companies can assess non-monetary benefits using quantitative (e.g. repurchase rates) or qualitative parameters (e.g. customer attitudes).

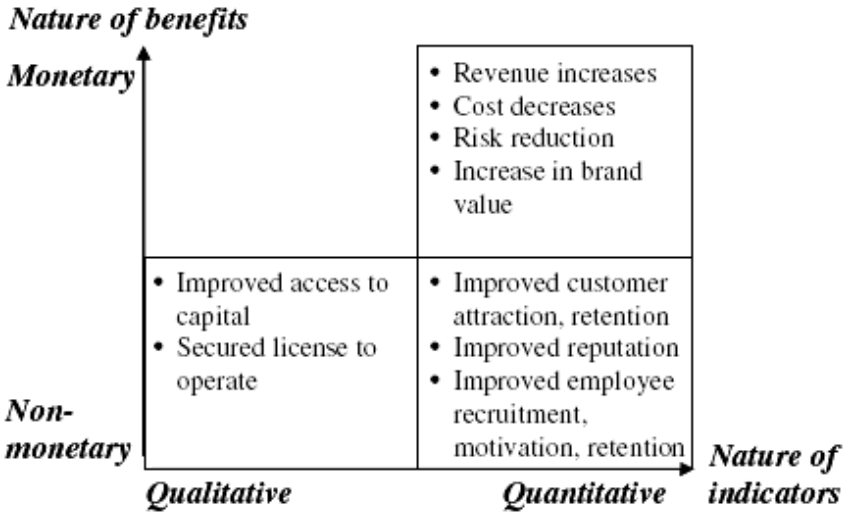

Figure 3. Business benefits from CSR (Weber 2008)

Adoption of CR activities can also result in negative outcomes or the expected benefits may not materialize (Hillary 2000). There can be added costs and additional paperwork; extra time is required to design and implement the activities; meeting different stakeholder demands can be problematic; the lack of knowledge and negative attitudes within the organization can prove an obstacle; and the lack of clear framework and the absence of external support can hinder the adoption of practices. From the managerial point-of-view, there can be specific difficulties in implementing sustainability strategy. One has to simultaneously pursue excellence in social, environmental and financial performance; stakeholder responses cannot always be predicted accurately; corporate and societal priorities can change; the costs of sustainability activities change; and it is often unclear how to make trade-offs. (Epstein 2008).

In spite of rigorous research, a strong, causal quantitative link between CSR and financial performance of the firm remains inconclusive (e.g. McWilliams & Siegel 2000, Vogel 2005, Cowe & Hopkins 2008). A multitude of contradictory results, however, have also been published. E.g., Russo and Fouts (1997) found a positive link between the environmental and the economic performance. Orlitzky et al. (2003) conducted an extensive meta-analysis of 52 studies and 33 878 observations and found that social responsibility indeed brought economic rewards; the same could be said about environmental responsibility but to a lesser extent. Scholtens (2008) found support for a positive, significant interaction between social and financial performance of the firm,

but the financial performance predominantly preceded the social performance. Brammer and Millington (2008) studied the connection within the context of charitable giving; in their research, the connection was curvilinear as the firms with both unusually high and low social performances had better financial performances than other firms. The poor social performers did best in the short run whereas the good social performers collected their financial rewards over longer time horizons.

Hillman and Keim (2001) studied the relationship between the social and the financial performance of various companies by separating the social performance into stakeholder management and social issue participation. Improving the relationships with primary stakeholders (employees, customers, suppliers and communities) lead to an increased shareholder value by helping the firms to develop intangible and valuable assets which then according to the RBV provide sources of competitive advantage (see also Branco & Rodrigues 2006). Participation in social issue management not directly related to primary stakeholders was negatively associated with shareholder value. The authors concluded that stakeholder management can help the firm to differentiate from its competitors, whereas social issue participation may be regarded as a transaction easily copied by competitors.

3.1.5 CR in the wider context of strategy

McManus (2008) raised the question if CSR essentially is a different approach to business; he suggested that if anything, it is a management innovation just like the idea of business strategy is a management innovation. Leading organizations will recognize the benefits of CSR first and have the opportunity to use it to create sustainable value. Managers need to focus on how to make the concept "real" for their organization by embracing the union of business strategy and CSR, and by pursuing growth and innovation within the new parameters. Integrating CSR into corporate strategy is the most advanced and far-reaching way to practise CSR (Perrini & Minoja 2008).

Strategic management looks both inside the firm and outside it: it looks inward to competencies and capabilities and outward to the operating environment of the firm (Baron 1995). The environment of business is composed of market and nonmarket components and any strategy approach must integrate both market and nonmarket

considerations. Market strategy creates value by improving the economic performance of the firm whereas nonmarket strategy creates value by improving the overall performance. An effective business strategy integrates both strategy components with firm capabilities. According to Baron (2010), the effective management of the nonmarket environment has become a necessary prerequisite for superior performance, as the market and the nonmarket environments are interrelated. Business activities in the market environment can generate nonmarket issues and changes and correspondingly, the changes caused by stakeholders in the nonmarket environment can force a firm to change its market activities.

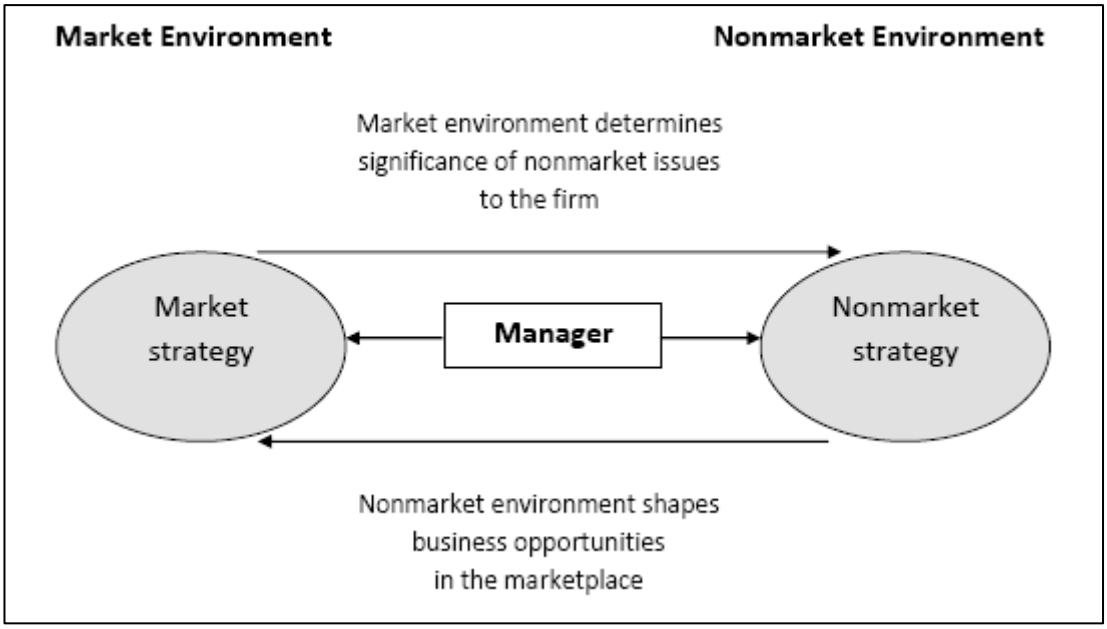

Figure 4. The environment of business (from Baron 2010)

Bhattacharyya et al. (2008) suggested that when managers design strategic CSR initiatives, the relevant stakeholders of the firm need to be identified based on their saliency and the firm's interest in CSR is based on the contribution of CSR to the value chain of the firm, with regard to the competitive environment of the firm and the possibilities of creating new business opportunities. The resources of the firm are scarce and valuable and must therefore be utilized in an appropriate manner and for a worthwhile cause (Weber 2008). CSR activities require the sacrifice of these resources. The conclusion about the value of a CSR activity or a decision between alternate

activities is only possible by evaluating the strategic relevance of their associated business benefits.

O'Riordan (2008) has described CSR as a process in which two distinct stages and several activities can be identified (figure 5). The CSR strategy development phase includes three factors: the values driving the strategy, the alternatives available to the decision makers, and the chosen CSR strategy as a result of the two preceding factors. The implementation phase includes the execution and the control of CSR (i.e., the feedback loop) and the expected output. This results-orientated approach ensures the efficient use of managerial resources.

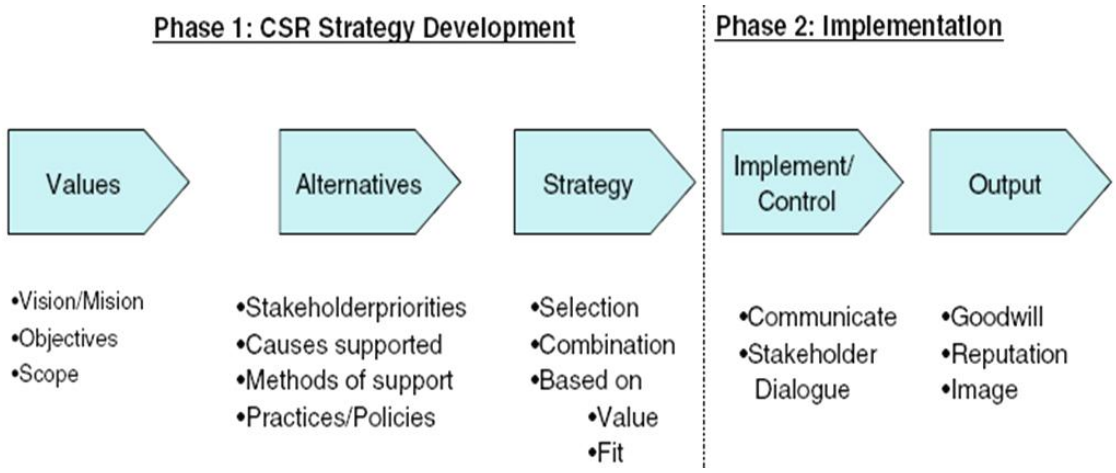

Figure 5. Phases and steps within the CSR process (O'Riordan 2008)

Kourula and Halme (2008) posited CR actions into three categories: philanthropy, CR integration and CR innovation. Corporate philanthropy concentrates on charity activities. The integration approach connotes conducting existing core business operations more responsibly, e.g., investing in R&D and ensuring high-quality of products (responsibility toward customers), acting responsibly toward employees and applying environmentally beneficial practices. In innovation approach, the emphasis is on developing new business models for resolving social and environmental problems. Jenkins (2009) has explored how SMEs can best utilize the opportunities presented by CSR. Integrating CSR into the core of a company by building it into the systems is

crucial. Jenkins sees three categories of opportunities: innovation in products and services, serving new markets and building new business models. The way in which these ideas are implemented depends on a range of factors, including the skills and the motivation of the managers and their employees, as well as the competitive environment.

Galbreath's (2009) argument is that CSR needs to be systematically incorporated and integrated to corporate strategy. Current approaches such as codes of ethics and triple bottom line (accounting and reporting for financial, environmental and social performance) are too defensive, reactive and limited. Strategy is the foundation of a firm as it establishes its position in the market, its competitiveness and its continuing existence. Strategy is concerned with comprehending and addressing the issues that influence the firm's ability to achieve its mission, so that its products and services can meet the needs of its chosen markets through effective resource configuration, in order to build sustainable competitive advantage. Galbreath discusses CSR in the context of six fundamental and interconnected strategic dimensions: mission, strategic issues, markets, customer needs, resources and competitive advantage (figure 6).

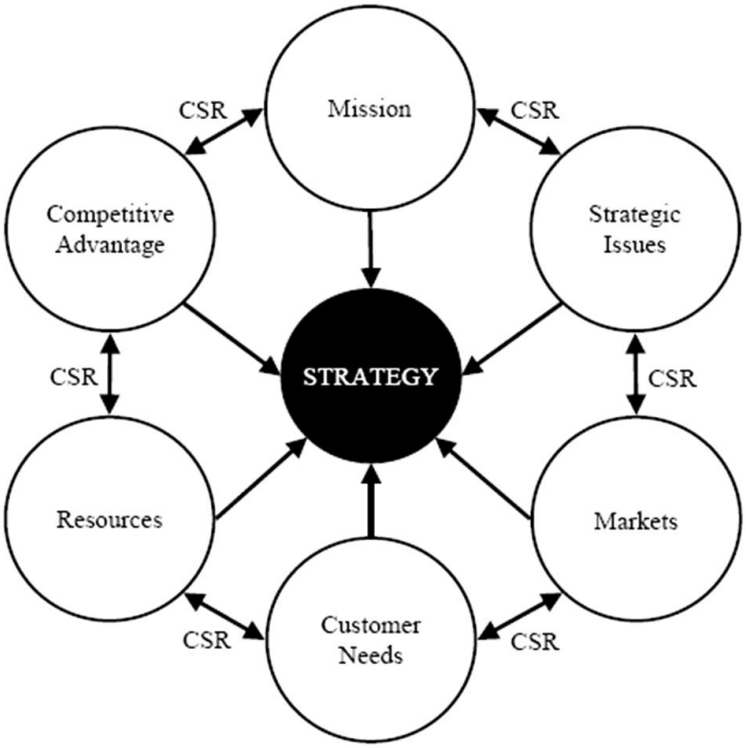

Figure 6. CSR in the context of strategy (Galbreath 2009)

Mission defines the firm's objective in the long-term and is a signal to all stakeholders (Galbreath 2009). Although some issues may be common to almost every firm (e.g. recycling), expectations for different industries can differ greatly, given the divergence of stakeholders. CSR has to be strategized in the firm's mission with consideration given to interest group expectations and to the competitive environment. CSR must be built into strategy in a way that reflects its actual business significance to the mission of the firm. Galbreath (2009) gives an example: The Body Shop addresses animal rights through the core of their business by developing safe, high-quality cosmetics.

Strategic issues are those internal and external issues that are significant enough to influence the firm's ability to achieve its objectives (Ansoff 1980); they can be internal strengths or weaknesses, and external opportunities or threats. Understanding the operating environment of the firm is a part of strategy, and firms must place systems to screen and consider strategic issues and their implications (Galbreath 2009). Monitoring media, for instance, can reveal early signals of societal trends. Scenario planning enables firms to consider shifting consumer preferences and their significance. The focus of nonmarket strategy is on the issues that affect the opportunities of the firm, its market and nonmarket positioning and its capabilities (Baron 2010). Issues have to be screened, analyzed and chosen. Most companies focus on the issues with the most significant impact on the performance. Firms can possess specific assets and competencies in dealing with stakeholders; if these competencies are unique, difficult to replicate and costly, the firm possesses a sustainable competitive advantage. The reputation of the firm as a responsible actor is a significant asset.

According to Galbreath (2009), a thorough assessment of actual and potential **markets** is required; social dynamics need to be considered in addition to the market considerations commonly prescribed in marketing literature (demographics, geography, market potential etc.). Dynamics refer to the underlying consumer expectations in the markets for the role of the business in society. Socially related forces are increasingly affecting the market and the development of **customer needs**. Firms can embrace this with product, process or service innovations. Entirely new markets can be discovered where unmet social needs or social issues can be fulfilled. In Sweden, for example, the continuous reviewing of changes in the business environment and the improved interaction with customers helped sawmilling managers to match specific firm resources

with market segments who valued the particular offering of the firm. Gaining customers' input in product and service development was of key importance to the sector's product and service value adding as the companies were able to identify the dynamics of their environment and to act with strategic foresight. (Hugosson & McCluskey 2008).

Aligning CR with the RBV, matching **resources** with the changing external environment is a major component of strategy (Galbreath 2009). The firm needs to consider a specific way to leverage a specific resource while engaging in CSR, in order to internalize at least some benefits. Acting in a socially responsible way can bring context specific advantages. For instance, energy conservation cuts the expenses of the firm but there is also a spill-over benefit to the public in the firm's contribution to aggregate energy saving. While pursuing **competitive advantage,** the firm should focus on creating and employing resources that ambiguous and complex. Galbreath (2009) suggests that developing long-term stakeholder relationships creates a socially complex resource based on reputation and trust; this cannot be easily imitated or copied by competitors, unlike market transactions.

Integrating CSR into strategy is not chronological and there is no specific path to follow; if anything, it is "an emergent pattern over time." (Galbreath 2009, p.113). At any given time, one of the discussed dimensions of strategy can be more important than others. A variety of different threats and opportunities continually face the firm and decisions have to be made to address them. Ultimately, however, considering CSR in the whole context of strategy can contribute to good management practice, economic benefits and societal welfare.

3.2. Theoretical framework of the study and its operationalization

3.2.1 The theoretical framework of the study

The theoretical framework of this study suggests that a company should consider whether different aspects and dimensions of corporate responsibility can constitute a strategic issue, i.e., have the potential to affect the ability of the firm to achieve its objectives (figure 6).

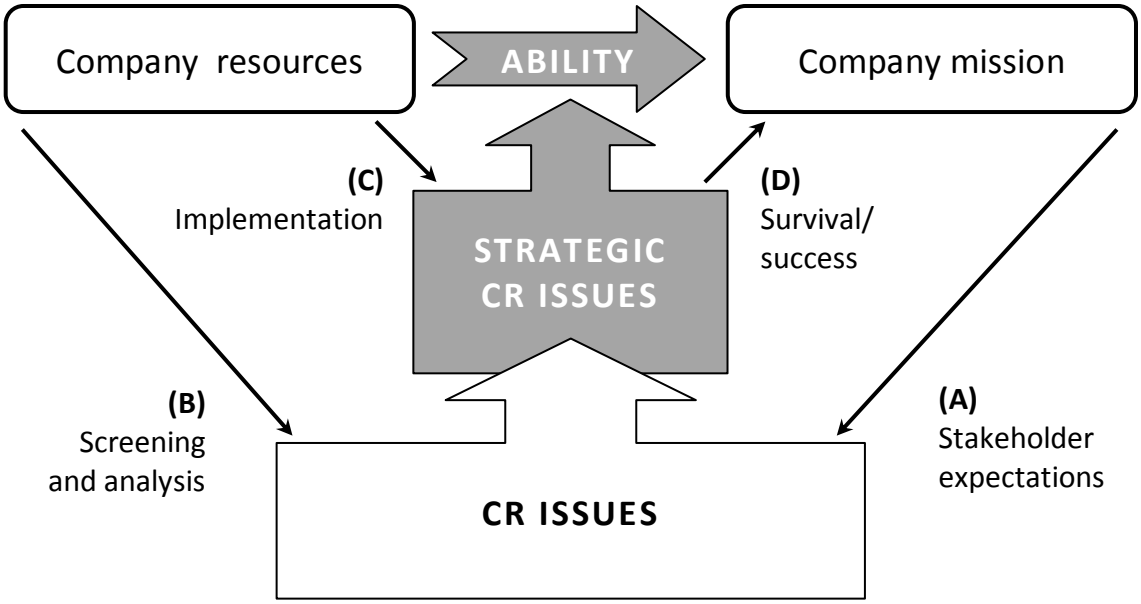

Figure 7. Theoretical framework of the study: CR as a strategic issue

The company uses its resources to accomplish its mission. Several stakeholder groups – owners, employees, customers, surrounding community, the society at large – have expectations regarding overall performance of the firm (A). These expectations on the economic, environmental and social performance of the firm can be regarded as **CR issues.**

Company resources are scarce and must be used efficiently. It is therefore necessary to identify those CR issues that are imperative to the firm: items are screened and analyzed (B) based on their potential impact. **Strategic CR issues** are significant enough to either improve or impair the ability of the firm to execute its mission; hence, it is vital that the company acknowledges and addresses them (C). Ultimately, executing strategic CR can result in multiple business benefits, e.g., risk avoidance, competitive advantage or sustained competitive advantage (D). It thereby potentially contributes to the long-term survival and success of the firm.

3.2.2 Operationalization of the theoretical framework

As the screening and the implementation stages in the suggested theoretical framework require action and resource allocation from the company, they are operationalized into specific activities and outputs of the firm by retrieving the CSR definition of the European Commission:

> ...companies integrate social and environmental concerns in their **business operations** and in their **interaction** with their stakeholders…

Interactions in this study entail the activities directly related to people: skills and competencies, communications, stakeholder relationships etc.; all other activities and outputs are considered **operations.** Obviously there are overlaps and interconnectedness between the categories. The categories are further divided into internal and external dimensions, i.e., the activities taking place at the mill and those taking place outside it. This division provides a clear and straightforward way of categorizing different activities; it will be further utilized in the collection and analysis of empirical data.

The CR activities of a forest industry SME presented in table 3 (p.31) are not a comprehensive list containing all possible actions and outputs of the firm; the table merely suggests areas where the CR perspective could be considered in the firm. The main stakeholder division and key business practices suggested by Spiller (2000) and the CSR activities of SMEs identified by Jenkins (2006) have been utilized when applicable. To connect CR with the resource-based view of the firm, the resource-pool

of sawmill introduced by Lähtinen (2009) and the resource items categorized by Galbreath and Galvin (2008) have been adapted for the purposes of this study.

Within the four main categories, the CR activities have arranged under a few, fairly broad themes, which later will constitute the frame for the themed interviews of sawmill managers. For instance, the internal operations category has three major themes: *production and end products*, *processes* and *economic responsibility*. Sawnhey (2006) has defined processes as the configurations of business activities which are employed to manage internal operations. Production and technical efficiencies are discussed as a separate theme because of their obvious importance in the wood products manufacturing sector (e.g. Salehirad & Sowlati 2006). The economic aspects of business are discussed in the context of internal operations although obviously financial accountability cannot be regarded as an individual operation, nor is it restricted to the internal domain. It does, however, originate from the very core of business – and is generally pursued by businesses; according to Milton Friedman (1970), "the social responsibility of business is to increase its profits".

Table 3. The CR activities of a forest industry SME

Internal operations	Internal interactions
Production and end-products: efficient use of roundwood and by-products, energy efficiency, high/requested quality of products; customer value for money; patents, copyrights or trademarks for environmentally friendly products **Processes:** quality system/certificate, environmental system/certificate; organizational routines that consider the effects of activities from economic, social and environmental perspectives, R&D of environmentally advanced processes **Economic responsibility toward owners:** safeguarding good rate of long-term return shareholders, e.g., by improving productivity and profitability	**Human resources:** job security; on-going training and education; performance appraisal; acknowledgement and compensation for specific skills and know-how; voluntary health and safety investments **Organizational culture and communications:** flat management structure, e.g., easy access to management for all employees; efficient daily operational communications; a clear business strategy that is communicated throughout the organization; reporting of overall performance to all employees
External operations	**External interactions**
Wood procurement: roundwood acquisition from certified forests, procurement from the vicinity of the mill, maintaining chain-of-custody of timber **Supply chain:** locality and longevity of contracts; incorporation of economic, environmental and social elements in supplier selection criteria; compliance to upper supply chain requirements regarding environmental and social performance; long-term alliances and collaboration with industrial customers	**Customers:** active maintenance of customer dialogue; rapid response to concerns; striving for long-term relationships and collaboration; truthful promotion; verbalized mission **Forest owners:** long-term relationships as a result of collaboration and trust **Local community:** local recruitment; provision of income to local forest owners and contractors; corporate philanthropy; direct involvement in community projects and affairs, e.g., collaboration with local schools **Society at large:** monitoring of societal trends (media, industry publications, market research etc.); communication and collaboration with NGOs, educational and research institutions, media etc.; disclosure of overall performance

4. Research methodology

4.1 Qualitative research, case studies and themed interviews

Any kind of research requires a research question. In a qualitative study, the research questions are usually formed "how?" and "why?" whereas questions "what?", "how many?" and "how much?" indicate a survey study as the preferred strategy. The theory of a qualitative study is constructed to create simplicity out of the multiplicity. The contribution of qualitative research to science is that it gives the reader a new, deeper way to understand a phenomenon. (Koskinen et al. 2005).

Case studies have been used frequently in psychology, sociology, political sciences, social work, business and community planning; they have also been used in economics. Yin (2003) defines a case study as an empirical enquiry that explores a contemporary phenomenon in its real-life context; the boundaries between the phenomenon and the context are not clearly evident; there are more variables of point than data points; the research relies on multiple sources of evidence (data triangulation); and the research benefits from prior theory to guide data collection and analysis. Cases are a necessary part of the knowledge base in business science as they produce new ideas and hypotheses and can be used to test established theories and concepts (Koskinen et al. 2005).

Critics of case study research argue that the findings cannot be generalized unlike, for instance, in a sampling based survey research. It is nevertheless possible for a case study researcher to take into account the heterogeneity of the population in two complementary ways: by using theoretical ideas and information about the population and the cases, and by selecting the cases based on these ideas. The population that is the objective of the empirical generalization can take different forms: it may be an existing population but it can also be a population that is likely to exist or might exist in the future. This point-of-view obviously has implications for the case selection of the study. (Gomm et al. 2000).

The evidence of a case study can originate from documents, archival records, interviews, direct observations, participating observations and physical artefacts. In data collection, three principles must be adhered to: using multiple sources of evidence, creating a case-study database and maintaining a chain of evidence. (Yin 2003). Themed (semi-structured) interviews are the most common qualitative data collection method in social and business economics sciences. A themed interview gives liberties to the person interviewed: the researcher determines the questions but the interviewee responds with his own words and can even introduce new topics. A carefully planned and executed interview is a motivating experience to which subjects easily agree to as people generally like talking to focused listeners. (Koskinen et al. 2005).

Qualitative research and the selection of case study method can be credibly justified in this study. The topic is unchartered territory in this context (Finland, SMEs, forest industry, CR, competitive advantage) and pursuing a quantitative research strategy at this early stage could be extremely difficult for many reasons. For instance, formulating a survey questionnaire in a way that allows and encourages the managerial input and insight on things not covered by the questionnaire could have proved very challenging. Yet it is the views and perceptions of the line managers – as expert witnesses of true competitive advantages of the firm – that this research specifically wants to acquire. This explorative study is necessary to probe the current state of affairs and to give a solid starting point for further research.

4.2 Validity and reliability

According to Silverman (2000), qualitative research has been treated as a relatively minor methodology is some textbooks and it has been suggested that it should only be used in the early or exploratory stages of study. From this perspective, qualitative research could be used to familiarize oneself with the setting before initializing quantitative measures. This criticism has some basis given the fact that qualitative research is stronger on the narrative than on statistical evidence. Shortage of space means that qualitative researchers can only provide readers with short extracts of the data. There can be questions regarding the consistency of observations and the interpretation of transcripts. A second criticism toward qualitative research is directed toward "anecdotalism", where research reports utilize only partial data to build a case

and do not attempt to analyse less clear or contradicting data. These issues raise concerns about the reliability and validity of qualitative research.

Reliability means the consistency with which instances are assigned to the same category by a different observer or by the same observer on a different occasion. In order to prove the reliability of his study, the researcher has to document his procedure and demonstrate that categories have been used in a consistent way. (Silverman 2000). The objective of reliability is to minimise bias and errors in the study; diligent documentation of procedures and data is the method to secure the reliability of a case study. Using case study protocol and establishing a case study database addresses the documentation problem efficiently. The protocol guides the investigator to systematically design and implement the research. A formal, presentable database of raw data allows other, independent investigators to view the evidence directly and not be restrained by the written case study report. These practices increase the reliability of case studies markedly.(Yin 2003)

Validity as a word means truth; in research, the issue of validity is usually presented in terms of what constitutes a plausible claim to truth (Silverman 2000). Construct validity (table 4) establishes that appropriate operational measures are used for the concepts being studied. In order to increase construct validity, the researcher must use multiple sources of evidence in data collection. A chain of evidence has to be established, i.e., the researcher ensures that an external observer is able to follow the derivation of evidence and to trace the steps taken in the study from research questions to conclusions – and in the opposite direction. (Yin 2003).

External validity of the study refers to the extent that the findings of the study can be generalized to; this has been a major barrier in conducting case studies. Unlike survey research which relies on statistical generalisation, case study research relies on analytical generalization which strives to generalize the results to some broader theory. In a multiple-case study, replication logic (table 4) can be employed to improve external validity: cases are carefully selected so that they either predict similar results (literal replication) or contrasting results but for predictable reasons (theoretical replication). The development of a rich theoretical framework is an important part of the process as it

depicts the conditions under which the research phenomenon is likely to be found and later serves as a vehicle for generalizing.(Yin 2003).

Table 4. Case study tests and tactics for an exploratory case study (Yin 2003)

Tests	Construct validity	External validity	Reliability
Case study tactic	Use multiple sources of evidence Establish chain of evidence Have key informants review draft report	Use theory in single-case studies Use replication logic in multiple-case studies	Use case study protocol Develop case study database

4.3 Data analysis

Eisenhardt (1989) has described the process of building theory from case study research. Analyzing data is at the heart of the process, yet it is the least the codified part of it. One key step is the within-case analysis of the data, where the idea is to get familiarized with each case as an independent entity before attempting to generalize patterns across cases. In discussing cross-case analysis, Eisenhardt acknowledges that people generally process information poorly: they leap to conclusions, are influenced by respondents qualities, reject disconfirming data etc. To counteract this bias, the researcher can employ three different tactics: selecting categories and then looking for within-group similarities and intergroup differences; seeking similarities and differences between pairs of cases; and using data from multiple sources. The use of these tactics will increase the likelihood of reliable and accurate theory.

Silverman (2000) suggests methods to validate findings at qualitative data analysis:

- the refutability principle, i.e., contesting initial assumptions about the data
- the constant comparative method, i.e., the provisional hypothesis should be tested in another case
- the comprehensive data method, i.e., all data must be incorporated in the analysis
- deviant-case analysis, i.e., all data has to be used until it can be accounted for
- using appropriate tabulations, i.e., applying appropriate quantitative measures

The themes that emerge in the analysis need to be compared with each case to assess the fit between the theory and the data. A close fit is a necessity in building solid theory. Forming hypotheses in theory-building research entails measuring theoretical constructs and verifying relationships. The researcher must evaluate the strength of the relationships and display the evidence and the procedures. Finally, the results must be considered in the light of existing literature. (Eisenhardt 1989).

The reliability and the validity of a case study depend on the weight of the theoretical reasoning; extrapolation based on the features observed in an individual sample depends on the strength of the logical connections between theory and findings (Mitchell 2000). There are some cautions to consider while building theory from case studies; for instance, the intensive use of empirical data can lead to an overly complex theory, i.e.., the abundant data is utilized in attempt to "capture everything" (Eisenhardt 1989, p. 547). Conversely, the resulting theory may also be very narrow and idiosyncratic if the researcher is unable to generalize the findings sufficiently.

Data analysis in a case study concentrates on why things happen, rather than on statistical evidence. Patterns in the data are searched and codes are assigned to sections of interview data that relate to the research issues. Matrices and tables that link themes and cases are drawn up and appropriate quotations from interviews are noted.(Perry 2003). This study relies on the theoretical propositions that form the base for the objectives and the design of the study, as described by Yin (2003).

Alasuutari (1995) discusses the need to purify the observations made. He emphasized that data has to be observed from a certain theoretical and methodological perspective; when the point-of-view has been chosen, the researcher must be systematic and only pay attention to what can be considered "essential" in view of the theoretical frame and the research questions. The second stage of purifying the observations entails classifying raw observations into a smaller number of observations. The researcher has to be able to find a common denominator or create a rule that applies to all data.

4.4 The sample

While collecting information the researcher needs to consider what is actually known about the cases and the population that they represent, i.e., the characteristics of the case are compared to the population. Several strategies are available to facilitate case selection. A case can selected on the basis that it is as typical as possible in all relevant aspects; a small sample of cases can be studied to embrace the extremes of the anticipated heterogeneity in the population; it is also possible to combine case studies to survey studies. Regardless the case selection method, no single case can contain all the characteristics of the population: it will remain a fragment with distinctive characteristics. Only by taking this into account, can the case study method provide an opportunity to understand the phenomena. (Gomm et al. 2000).

Purposive sampling allows the researcher to select a case because it illustrates a feature or a process of interest. Purposive sampling necessitates that the researcher critically considers the parameters of the population. The researcher can set up a typology to help the decision making. There may not be available examples to fit all typologies and resources may not allow research of every existing unit. Theoretical sampling is often treated as a synonym of purposive sampling. The only difference between the two occurs when the "purpose" behind purposive sampling is not theoretically defined. (Silverman 2000).

In this study, the population consists of medium-sized Finnish forest-industry companies. As there are no independent medium-sized pulp, paper or paperboard companies in Finland, the cases represent mechanical forest industry. Three companies are selected for the study because the evidence from a multiple-case study is often considered more compelling and robust (Yin 2003). The companies are selected on two grounds: firstly, their product portfolios are non-identical and secondly, they appear to be addressing CR already based on their external corporate communications. There are two arguments for the latter selection argument: the need to investigate good role models in CR practice and the presumption that the amount of businesses comprehensively addressing CR is expected to grow in the future. A case can be chosen to be an object of study on the basis that it is likely to represent a future population (Gomm et al. 2000).

The unit of analysis in this study is an individual informant, not a company. The interviewees are line managers of the companies, i.e., they are in charge of specific functions of the firm: production, wood procurement, marketing etc. In a medium-sized company, the managing director of the enterprise often functions also as a line manager. The three case companies are next briefly described in terms of their core area of business, markets and stated strategic and CR focus, as formulated in their corporate communications.

Case company A is a medium-sized/large independent sawmilling enterprise which employs fewer than 250 people but has a turnover of over €50 million. The company focuses on sawmilling without processing the sawn timber further. End products are sold both in the domestic and the export markets. Customer orientation is the founding principle that the company claims commitment to. The enterprise also asserts publicly its commitment to socially, environmentally and economically sustainable use of forest resources. Environmental perspective has been integrated to all operations and the company highlights the renewable quality of wood as a material. The company holds a PEFC certificate.

Case company B is a medium-sized, privately-owned sawmilling company. Sawn timber is delivered to Finnish and to foreign markets. Based on corporate communications, the environmental aspect is considered in all activities of the firm on a daily basis. The renewable quality and the general environmental friendliness of wood raw material is emphasized and the firm possesses a PEFC certificate. Economic, social and ecological aspects are considered in all business operations. Another aspect highlighted by the company is quality and customer service.

Case company C is an independent enterprise involved both in sawmilling and in producing value added products from sawn timber. The company is medium-sized based on the size of the workforce but large based on its annual turnover which exceeds €50 million. Products are sold both domestically and overseas, and the company holds a PEFC certificate. The firm asserts that its products have been designed to correspond with the specific needs of the customers and the ultimate objective is to deliver the customers the products that they ordered. Wood acquisition is based on the sustainable use of forest resources; ecologically, economically, socially and culturally sustainable

forestry is promoted by the firm based on its corporate communications. Additionally, the firm maintains that the environmental dimension is considered in all activities with potential environmental impacts.

Nine interviews were conducted with three managers representing each company. Three of the managers interviewed were in charge of the wood procurement of their respective companies; two interviewees were production managers; the other four informants managed sales, export sales and/or marketing. The interviews were carried out via telephone, and their duration ranged from 30 to 100 minutes. During the interviews, notes were written of the replies and comments of the interviewees; immediately following each interview, the annotations were written out into complete sentences. Clarifying comments and notes were added to the text material by the interviewer where needed.

The interviews will be summarized in the following chapter. Some of the responses of the interviewees could have been placed in more than one of the result subchapters based on their content but in order to maintain clarity they are presented mainly in the context where the reply was given. Furthermore, the topics introduced by the informants are presented in their original context.

5. Results

5.1 Sources of competitive advantage in internal operations

5.1.1 Production and end-products

Internal operations of the firm were the first theme discussed during the interviews: the managers were asked if they could identify specific sources of competitive advantage in the operations taking place at the mill. The importance of production technology was spontaneously emphasized by eight out of the nine informants. In the background, all three case companies had made major investments into state-of-the-art technologies in the fairly recent past, driven primarily by the need to utilize roundwood in a more efficient way. Several interviewees emphasized in this context that the foundation of sawmilling business is having access to roundwood; technologies, in turn, are modified to match the particular raw material available. The importance of efficient production technology was particularly stressed by the managers of the two companies focusing on sawmilling without further processing. The managers in one of these two companies particularly highlighted that focusing on "basic" sawmilling is a major competitive advantage of the company.

Technological investments were also regarded as a means to satisfy the demands of the customers in a more comprehensive way: improved grading and processing of timber allows the mill to produce timber of agreed-to quality to match the specifications of the customer. This customer focus was, in fact, highlighted by all of the interviewees. A marketing director spontaneously produced in this context his definition of CR.

> If you want me to say here what corporate responsibility is in this firm, then it is reliability which means that we deliver what we promise and that the quality is what we promise it to be…this is why we have made the investments into technology

According to the informants, the available roundwood has to be used as efficiently and closely as possible, and this approach extends to the by-products of sawmilling, i.e., wood chips, sawdust and bark. The vital importance of the efficient use of by-products in was mentioned by several interviewees. All three companies sold their wood chips to

pulp mills; the current shutdowns of chemical forest industry were regarded as a concern. One wood procurement manager noted how the sawmill produces three times more energy than it consumes, but also mentioned that the situation is "not driven by the need to save the world – rather by economic drivers"; he continued by remarking that “having every other truck off the roads because of drying sawdust at the mill can certainly be seen as an environmental act”. The energy surplus generated by sawmilling industry was identified as an environmental accomplishment by several other interviewees.

One of the sales managers discussed the competence and reliability of the employees in connection with the technical quality of products. He felt that both of these areas of competitive advantage in the company have to be actively managed to maintain the expected standards: technology has to be constantly developed and employees must be trained to use of equipment properly in order to maintain quality.

> You have to motivate the people working the shifts (evenings and nights)...they can't make mistakes because the quality should remain the same, regardless the time of the day...there shouldn't be reclamations...I gave them a talk on how 100 per cent is not enough, it must be 110 per cent...I can see that they have really sharpened up and their motivation is better...nobody wants to keep making the same mistakes over and over again

One of the production managers noted how it is essential to combine both internal and external operations successfully. He added that in his opinion, the company was "not doing anything that special – everybody probably has more or less similar things going on". One of the wood procurement managers also called for a more holistic view of business and rejected the division into categories (internal, external etc.) suggested in the interview.

> In order to survive, a sawmill has to master the whole chain: the wood procurement, the production and the markets... the firm has to be agile in buying wood and in selling sawn timber – both at the right price

The importance of competent product pricing was also recognized by a production manager who identified the skill and expertise in this area to be major competitive strength to the firm. He also stressed that the most important thing for the company is "to do business and survive".

5.1.2 Processes

None of the case companies possessed an environmental or quality certificate such as ISO9001 or ISO14001. Sales, marketing and production managers from two of the companies noted that the main reason for not acquiring a quality or an environmental certificate was financial: the cost is too excessive to the smaller firms. A production manager was also uncertain about the significance of this kind of certificate to the business.

> At one stage it seemed like customers would always ask for them but I really don't think we have lost a single customer because of not having them... I think they just do not create added value...the documents are all there in the folders and we do live by them to a certain extent but we haven't ratified them because they are really expensive for small businesses like us ...but we can certainly set them up quickly, should it turn out to be necessary

According to the managers interviewed, the absence of certificates does not indicate that the principles of the aforementioned standards would not be acknowledged by the companies. A marketing director mentioned that although the firm does not hold an ISO quality certificate, the firm actually "lives in accordance with it" in the sense that when problems surface they are registered, analyzed and learned from.

One sales manager mentioned in this context that their company holds "a PEFC forest certificate and in our opinion, that is all we really need". Forest and chain-of-custody certificates were mentioned in this context by several informants whose opinions will be more extensively covered in the context of wood procurement.

5.1.3 Economic responsibility toward owners

Two of the wood procurement managers – both with long work histories in their respective companies – reflected on some past events of firm histories in financially difficult times. The ability of the firms to continue their existence had been under threat: there had been redundancies and heavy financial burdens to carry. Both interviewees emphasized that at the time, securing the survival of the company had been a priority. The viability of the firm had to be ensured first – only then could growth begin anew and jobs become available again. "This was the only possible way to proceed", noted

one of the informants. The other manager also remembered contemplating the big picture at the time.

> I sat down and thought about this a lot...there was no other alternative, really: either these people had to go or there was the danger of the whole company going under – and then there would be nothing left for any of us

One of these interviewees added that any excess revenue created today would be utilized to develop the firm further, in order to secure its continuing existence.

A marketing director emphasized the importance of pursuing profitability through optimized production technology, roundwood costs and shipping costs. A sales manager of another firm criticized in this context the major forest industry integrates for skewing the market prices and thus hurting the whole sector.

> It is inconceivable how these major companies make huge investments, then produce too much and cause the market prices to drop...sure they get their merchandise sold at that price but it doesn't make the whole process profitable...so the whole sector ends up suffering from their ineptitude in pricing

Table 4 briefly summarizes the responses and the topics introduced by the interviewees while discussing internal operations.

Table 4. Sources of competitive advantage in internal operations

Internal operations	CA identified by the managers
Production and end products	State-of-the-art technology (grading, efficient use of roundwood, improved productivity, guaranteed product quality)
	Access to roundwood is essential
	Diverse product portfolio to match diverse customer needs (driven by the type and amount of available roundwood)
Processes	Learning from mistakes; preventing errors
Economic responsibility	Solid economic foundation is required in order to exist in the first place
	Profitability has to be actively pursued
	"Sell and survive"
Other topics introduced by the interviewees	
Focusing on core business of "basic" sawmilling is CA	
Competence in product pricing is CA	
Matching internal and external operations, i.e., mastering the whole supply chain is CA	

5.2 Sources of CA related to internal interactions

5.2.1 Human resources

The importance of committed workforce and their knowledge and competencies was spontaneously acknowledged by most of the managers in all three companies. The current employee retention was good in all three firms according to the interviewees, albeit that two of the companies had experienced redundancies in the past when increased automation had reduced the need for manual labour. One wood procurement manager commented on the change that had taken place in the job descriptions of the employees since the introduction of the more advanced technologies.

> I am extremely proud of our employees and I have been positively surprised by their ability to adapt to the new technology, and by their willingness to accept new challenges...the change in the operations has required a lot from them...some 25 years ago the job used to be all about how broad their shoulders were, now it is about having the stamina to press a button without fatigue

The production manager of the same company felt that the employees now are a "tightly-knit" group of people who appreciates a solid employer. The high commitment level of the workforce was recognized by several other interviewees as well. The company's commitment to its employees was formulated by a marketing director with the words "the firm tries to take care of its own".

Another perspective on the job retention issue was added by one sales manager who considered low turnover of employees to correspond with quality: the mill produces custom-made timber, and the experienced employees are familiar with the long-term customers and their specific demands. The production manager of the same company identified similar benefits of having employees with long work history.

> I think that our turnover of workers and the management of health and safety matters are on a better level than within the industry in general. Once an employee gets in, he does not readily get kicked out. This is also considered a way of keeping knowhow inside the company

Two of the interviewees mentioned in this context that since there is no existingno "ready" vocational education exists to match the needs of sawmills, each new employee has to be trained at the mill lto perform their particular task as each sawmill is unique. One production manager commented that although the professional qualifications of the company employees were "above-average", there were also other drivers for the good performance of the employees.

> There are these, kind of from-father-to-son type of jobs here where two generations of the same family have been doing the same task and they kind of see it as their duty to perform well

A marketing director added another perspective on how individual and organizational interest can support one another in the case of skilled labour: each employee of the mill has two areas of expertise and responsibility. This not only makes the work more interesting and meaningful for the individual but also provides a source of operational flexibility within the organization.

As for voluntary investments into the well-being of the employees, the managers in one of the firms particularly brought up the topic while discussing human resources. The company considers – according to them – that a healthy and "happy" workforce constitutes a business asset. The firm has succeeded in significantly reducing the amount of sick leave taken by the employees.

> ...the money we have invested into the welfare of the employees we have recovered – every penny

5.2.2 Organizational structure and communications

The interviewees uniformlyversally felt that the companies had a simple and flexible organizational structure with minimal hierarchy. Everyday operations "run effortlessly", there were "no confrontations" and "information flows freely"; one manager's office is "always open" and employees are free to walk in with their ideas and suggestions.

In addition to the obvious benefits created by the simple composition of the smaller firms, there are some potential problems as identified by, for instance, the marketing director of one of the firms. With oral communications dominating the daily operations,

specific attention has to be paid to having all information and instructions available also in writing, should it be needed at some point. Moreover, no employee will be tempted to use an unregistered oral instruction as "an excuse" if written instructions were available. A wood procurement manager in another firm acknowledged that internal communications is an area that can always be improved; he added that whenever a large group of people work closely together there are always bound to be rumours – "it can't be helped".

All three companies have organized some form of formal communications to the whole staff regarding the company performance; managers receive more frequent and detailed updates. The wood procurement manager of one of the companies voiced a question regarding CR in this context; he doubted if internal communications of a firm can truly be considered a form of corporate responsibility.

Another wood procurement manager identified the most important strength of the company to be its ownership structure, which is concentrated into the hands of very few people who all work for the firm. Thus the company "has a face which is recognizable both on the inside and on the outside of the firm" and decision making is swift, flexible and unanimous.

The responses regarding the internal interactions of the firm are presented in table 5.

Table 5. Sources of CA related to internal interactions.

Internal interactions	CA identified by the managers
Human resources	Knowhow and expertise of the employees
	Continuous training, motivating and rewarding of employees
	Job security, i.e., employee retention (knowhow stays inside the firm; quality delivered to customers improves)
	Giving responsibility to employees (work more meaningful; organization more flexible)
	Voluntary investments into health and safety
Organizational culture and communications	Minimal hierarchy; easy access to managers for employees
	Employee input and ideas are welcomed
Other topics introduced by the interviewees	
Narrow ownership structure of the firm is CA	

5.3 CA in external operations

5.3.1 Wood procurement

In addition to the technology highlighted earlier, the topic most emphasized by the interviewed managers as a CA was the securing the access to roundwood.

One wood procurement manager stressed that the availability of wood, the qualities of wood and the technologies suited to process the wood in an optimal way form the foundation of the business – and it is "the only possible approach": a business has to be built on the existing, natural circumstances and to this company, the roundwood is the starting point. A company has to pay – not too much or too little but – "the market price" for the roundwood, remarked one sales manager. Stumpage price is a major cost to sawmills and any marginal that can be created here is a major benefit, stressed several of the informants. A sales manager formulated his thoughts topics in a very clear fashion: the efficiency of the wood procurement organization is a specific asset to the firm, where wood acquisition is considered a priority.

> We buy any wood we can get our hands on…there cannot be a sawmill without roundwood so this is the most important thing...even if the markets are paying a really good price for the sawn timber, it doesn't matter if we don't have the raw wood to begin with...it is that simple

In the context of wood procurement, the interviewees were also asked about their perceptions regarding forest certification, chain-of-custody certificates and their significance to business. The opinions on the topic ranged from sceptical to those who considered CoC–certificates to be a necessity. One wood procurement manager enunciated his doubts regarding the weight of a wood origin certificate in consumers' buying decisions – he suspected that customers make their purchasing decision of a piece of outdoor furniture based on the physical qualities of the wood itself (softwood vs. hardwood), not on a certification stamp and scheme.

> I really don't think...I mean somehow I doubt that a European customer would by furniture based on a stamp in a piece of furniture; I mean, they all have some stamp on their side and regardless that stamp, you really can't tell with the Asian products, what kind of timber they are made of

Some of the other informants regarded the CoC-certificate as a necessity that "just has to be there by default". A sales manager expressed his thoughts on the subject:

> I think that a lack of certificate on a wood product can certainly be a deal breaker… For all practical purposes, it just has to be there…it doesn't so much create competitive advantage but it's absence can certainly present a problem...everybody just assumes that of course it is there

He believed that the absence of certificate would constitute a problem with the industrial buyers in Central Europe and the U.K., who require chain-of-custody certificates for their own environmental systems. An export sales manager felt that it is the British consumers who require certification of wood products; he also expressed his doubts regarding the reliability of some, less-familiar certificates present in the European markets.

> I saw a product made out of tropical hardwood and surely, it had a certification stamp of sorts on the side of it, with a smiling woman and a guarantee that the wood was sustainably produced and all that...but it did leave me wondering a little…I guess we all have a pretty good idea about the reality of that

Another wood procurement manager also revealed some frustration regarding forest certification generally and the reliability of some certificates.

> It is agonizing to keep writing statements of the origin of wood...this simply is not an issue here in the northern coniferous forest felt...well perhaps it is an issue in Russia but it doesn't seem to keep them from selling timber – they just lower the price if needed...and if, say, IKEA requires a certificate of the origin of the wood, then anyone who can hold a pen can write one for them

As all three companies were exporters of sawn timber, the export market received plenty of attention in this context. More specifically, the managers compared the differences of two forest certification schemes: the PEFC which dominates in Finland and the FSC which is predominant in Sweden. Three of the interviewees regarded the Finnish scheme to be a somewhat debilitating factor to the exporters in the U.K. in particular where the FSC is the "preferred system".

5.3.2 Supply chain

Wood procurement was discussed in the previous subchapter as a separate issue because of its significance, although it obviously forms a major part of the supply chain of sawmills. In the context of supply chain, the significance of business partners is discussed on a more general level. The aspect emphasized by many of the interviewees efficiencies in logistics.

A marketing director stressed that exploring and comparing different shipping options is vital when striving to improve profitability. Finnish businesses are remotely situated when European markets are considered and inevitably logistical costs are considerable. A sales manager noted that the price-quality ratio of logistics has to be adjusted to suit the purposes of the firm; particularly when longer freights to Central Europe are in question, the price is critical and logistical choices have to be made "awake and conscious". Another sales manager stated that in his opinion, logistics is "the alpha and the omega" in sawmilling: the change of a domestic shipping harbour can result in saving tens of thousands of euro per month.

The relationship with the partners is based on trust, rather than on "auctioning for the cheapest deal" according to one of the production managers. The longevity of business partner relationships was also highlighted by one wood procurement manager who identified capable business partners to be "essential" to the success of the firm: the mill has a large number of business alliances and it strives to maintain relationships with the ones that have proven to be good and reliable partners.

Table 6 (p.50) summarizes the topics discussed in the context of external operations.

Table 6. CA in external operations

External operations	CA identified by the managers
Wood procurement	Efficiency in wood procurement (buying as much roundwood as feasible; paying the market price – no more, no less)
	Business must be build on existing, natural circumstances (available roundwood)
	CoC certificate constitutes a necessity rather than a source of CA
Supply chain	Reliable business partners are essential; logistics are of key importance
	Longevity in contracts is sought after; trust is important – but so is the price
Other topics introduced by the interviewees	
Finnish PEFC system is a disadvantage in export markets when compared to FSC scheme	
Some of the less-known certification schemes are "suspicious"	
Significance of CoC in customers' purchase decisions is not clear	

5.4 CA associated with external interactions

5.4.1 Forest owners

As many of the interviewees highlighted, sawmilling relies on wood acquisition from the vicinity of the mill. Therefore the relationship with the local forest owners was universally considered important by the managers. Although the longevity of the relationship was seen as important, many of the managers commented on the fact that Finnish forest holdings are fairly small and thus not many repeat transactions take place. In the words of one production manager:

> An average holding is maybe 20-30 hectare and an average ownership about 40 years. There may be just the one transaction during the one ownership. We just don't get to meet them that many times

In this context, one of the interviewed managers in charge of wood acquisition expressed his unhappiness with the current "atmosphere of suspicion" amongst the forest owners as a result of an earlier price cartel formed by three major Finnish forest

industry companies. In order to create trust, the firm attempts to price raw wood in a way that would be clear and easy to comprehend to the forest owners.

Several informants stated that the forest owners possibly rather sell to a local buyer rather than to multinational companies. One sales manager believed that local companies indeed are the preferred option amongst the forest owners – as long as the price can be agreed on. One of the production managers noted that forest owners recognize the long history of the firm in the region, and the ways it does business. Because of this trust, "the last cent in the payment" may not be an issue.

Continuous work is required to create and maintain good relationship with forest owners: the firm must keep its word at all times and avoid "making a mess" – and if errors do get made, they must be instantly recognised and corrected, said one of the managers in charge of wood acquisition. His colleague commented that in order to facilitate repeat transactions with forest owners, the harvesting has to be executed in a way that leaves the forest and the land in a condition that is acceptable to the seller.

5.4.2 Customers

Long-term relationships with customers were pursued by all companies based on the interviews. The relationship is built on trust and collaboration and this aspect is particularly important when industrial customers are concerned, stressed several informants. One of the wood procurement managers mentioned again in this context how the type and amount of available roundwood guides customer selection of the firm. Instead of producing large quantities, the mill focuses on manufacturing smaller amounts of timber to match the specific demands of industrial buyers; the company has also invested into delivering exceptional service to the customers according to this interviewee.

Same manager emphasized that in order to maintain long-term relationships with customers, it is essential that the firm immediately recognizes and responds to any possible errors or flaws in products. Production manager of the same firm agreed that the company invests time and energy to manage relationships with the long-term

customers. Customer interface is mainly managed by the personnel working in sales and product planning.

> We visit our long-term customers, especially if there is a problem with quality…it increases trust and we want to develop collaboration with them

In order to survive, "the firm has to constantly scan the environment to identify the customers with the most potential and the best price available", reminded the exports sales manager of one firm. It is more expensive to acquire a new customer than to maintain an existing one – but there is always a sort of a "carousel going round and round" while looking into new opportunities commented one of the production managers. Not every customer of every mill is long-term client nor do they have to be, commented one wood procurement manager on the subject; although the company "obviously" values long-term relationships, the customer base is very diverse.

In this context, several informants highlighted again the importance of the technical quality of sawn timber in acquiring and maintaining good relationships with customers. The recent investments into production technologies – and the grading of roundwood especially – were mentioned again by several interviewees: accurate grading is vital to delivering promised quality to customers.

"Green thinking" is more transparent in the marketing of the end products than in the preceding stages of the supply chain; this is especially true when selling timber to British industrial customers, noted one of the production managers. As for whether "the greenness" is actually important to the consumers, the production manager was uncertain of.

> On what grounds the consumers choose their board bundle, I honestly couldn't tell

5.4.3 Local community

When discussing the association of the firm with the surrounding community, several of the interviewees highlighted the importance of the company as an employer and a source of income to the region. The economic input manifests through direct employment and the income generated for the forest owners and the supply chain

partners (mainly in logistics) of the firm. A marketing director remarked that this is "a responsibility that has to be recognized by the firm". The wood procurement manager of the same company elaborated in this context that the company injects several dozens of millions of euro into the regional economy. He also stressed the local nature of the business.

> The large multinationals that operate on several locations domestically and in other countries face entirely different circumstances...we are in a tied to this place and we must continue to exist here and operate accordingly... then again, we do get better social feedback locally than the big ones

As for the actual relationship with the community, all three companies had fairly long histories in their current location. One wood procurement manager described the relationship with the surrounding community as "matter-of-fact and businesslike"; he also felt that the municipality appreciates a big employer and the company had established forms of cooperation in energy production with the municipality. One of the production managers remarked that on the whole, the relationship with the community was good and that the local paper writes a couple of articles about the company every year "out of sheer sense of duty if nothing else".

The interviews also indicated that the relationships may not always be solely simple and problem-free: one wood procurement manager described the relationship between the company and the municipality as "an amoebic phenomenon". With this expression, he tried to illustrate the complexity of the relationship. The company is a major operator in a fairly small town and in the manager's opinion the local politicians were aloof in their relations with the firm in the fear of "voter suspicions" on the nature of the relationship. He felt that it was in the best interest of the firm to stand back from everything not directly linked to the core business of the company. All in all, he felt that the relationship with the surrounding community was good and the company shared a long history with the municipality.

One production manager reflected on the past initiatives of the firm to collaborate with the municipality in various projects. In the end, the company had executed the plans independently.

> Local decision makers are...no matter what we suggest, it just doesn't take, even though one would really expect it to...small towns are funny like that...but should anything "happen" at the mill, you can count on there to be big headlines at the local paper

All three case companies were practising corporate philanthropy in some way according to the interviewees; mostly these activities included sponsoring of sports events or other local events. One wood procurement manager stated that the company always donates money to children and to youth locally when asked although the amounts may not be large; it is important that the name of the firm can be seen on the list of sponsors. The same informant also mentioned that in a more difficult economic situation, the sponsoring "would be the first thing that we'd cut".

5.4.4 Society

The managers were not separately asked about their relationship with the society at large and if aspects of this relationship produce competitive advantage. The societal perspective was nevertheless actively introduced by the interviewees themselves during the interviews. Several of the interviewed managers considered corporate tax to be a form of corporate responsibility; compliance with law was also identified by many of the managers as a form of CR. Many of the aspects that could be considered "monitoring societal change" (as categorized in the operationalization of the theoretical framework) were discussed in the context of forest certification and customer preferences.

When asked about possible external sources of CA, one of the production managers acknowledged that the prognoses made regarding the operating environment of the firm had proven to be fairly accurate. In his opinion, the company had quite successfully foreseen some major developments and responded accordingly. Thus the technology investments made had proven to be well-grounded, the customer selection had been successful and the logistics were efficiently managed with long-term partners.

A wood procurement manager identified a major source of competitive advantage of the firm to be the "healthy" foundation of the business: specific attention had been paid to screening roundwood prices and market prices of sawn timber while simultaneously keeping production costs at an acceptable level. In his opinion, the large Finnish forest

industry corporations had failed in laying a viable foundation for their sawmilling by perceiving sawmills as "a front yard of pulp mill".

The following table 7 summarizes the topics that emerged while discussing the relationship with external stakeholders.

Table 7. CA associated with external interactions.

External interactions	CA identified by the managers
Forest owners	Long-term relationships and repeat transactions are striven for
	Trust is built on the long local history of the company, transparency in pricing, good felling practises etc.; selling to a local operator possibly preferred by forest owners
Customers	Customer orientation in developing products and services
	Available roundwood available directs the consumer selection of the firm
	Long-term relationships are pursued, particularly with industrial customers
	Continuous search for new business opportunities is necessary
Community	Medium-sized companies in small towns are acknowledged by the community
	Companies are closely tied to their environment – and probably get better social feedback than multinationals
	Small-scale corporate philanthropy (sponsoring of sports events etc.)
Society	Accuracy in making prognoses of the operating environment
Other topics introduced by the interviewees	
The relationship with the municipality can be complex	
Transparent "greenness" is more important in the customer –end of the supply chain	

5.5 Sawmill managers and CR

The fifth theme of the interviews was corporate responsibility. The managers were asked to define the concept and to describe how CR is practised by the company. They were also asked whether they considered CR to be a current or potential source of competitive advantage to the firm. The responses of all nine interviewees are briefly summarized in this subchapter.

A wood procurement manager spontaneously produced his definition of corporate responsibility in the beginning of the interview.

> Corporate responsibility for our company is to comply with legislation, to be able to look into people eye while walking down the street and obviously, to maintain good relations with customers...Our CR is to inject millions of euro into regional economy – this is more significant than just providing employment and paying taxes

The interviewee had first heard the concept decades earlier and noted that the topic always emerges at a time of an economic slump. In his opinion, the present-day CR is "turning into same kind of nonsense as forest certification", which – he felt – was not an issue in the northern coniferous forest zone, with possibly Russia as an exception. Aspects of CR do not have potential, for instance, in marketing communication as European consumers are already aware of the differences between the Scandinavian products and the products coming from "other countries that everybody knows for what they are". Moreover, industrial customers cannot be won-over with imagery according to him. The interviewee also rejected the wider definitions of CR suggested by the interviewer by commenting that when using such broad terms "just about any activity of the firm can be labelled as CR". The future of CR in the company is to provide customers with products that they need and to manage logistics in a way that allows accurate deliveries, the manager concluded.

A marketing director considered CR to equal with "an image of responsibility"; the concept was familiar to him from several years earlier. The interviewee had considered ways to utilize CR in marketing but could not see how it could be "converted to currency". He felt that the concept could certainly be planted into marketing

communication, but to him personally CR remained "a watered-down concept". He also identified the limited resources of a smallish company as the main reason why the company cannot implement what he called, "real corporate responsibility".

> This is a question of resources: because of limited resources, we cannot participate in activities that would actually affect the everyday life of the locals (in the export markets)...we are an important and responsible operator domestically but overseas, we simply do not have the kind of resources to execute CR that would touch the lives of the locals, like for instance something to do with the elderly or the local schools

The interviewee was asked how he perceives the future of CR in the firm; to him, CR essentially means that the company is committed to its contracts with the customers.

One of the production managers stated that CR is not a new phenomenon and remembered having heard concept in the 1980s. When asked how CR shows in the activities of the company, he remarked that "compliance with law is something so self-evident that the thought of non-compliance would not even occur to anyone". He stated that he personally does recognize that CR has significance and also deliberated that possibly the firm simply regards CR as "an obvious way to do business".

> Yes, I think CR is significant… perhaps we are being too modest about the whole thing...I mean we are so honest and think of these matters as so obvious that we don't really see them ourselves…so perhaps it is not so self-evident when looking from the outside

The manager continued by remarking that the company CR becomes visible in some obvious areas that originate from the core of the business, i.e., the use of local raw material and local employees. Although CR may not always be expressed as such, it lives on the general level of values and "in the back of the mind", he remarked. The interviewee was also certain that the long-term customers of the firm are aware of the responsible manner that the company conducts its business.

A manager in charge of wood acquisition defined CR as the responsibility of the firm toward its employees and business partners as the provider of employment and income; he added that company CR toward the society at large is to pay taxes.

An export manager remembered having heard the CR term several years earlier. The issue had become more topical in the 2000s when large forest industry companies had shut down operations in Finland and started production overseas. He noted that because of raw material issues this company is now – and always will be – tied to its local environment.

> We acquire out raw material locally and we do our sawing locally – we are here because of the raw material …this is the type of industry that you cannot move because of this raw material thing and we are in the business of sawing this particular type of timber...timber changes when you go to Central Europe and that is a whole other business; so there is also this side to consider – either we exist here or we don't exist at all

While discussing CR, the informant noted that particularly in the U.K. the customers were interested in the origin of wood and how it has been produced: the company repeatedly has to respond to various inquiries of the European industrial buyers.

> Sure the Brits, for instance, are very interested in the welfare of the employees...they keep sending us these forms where they want to know whether we use child labour and whether we have organized occupational health and safety for the employees and whether the employees have a chance to use the toilets during their shift…and we keep filling and returning these forms...and I am positive that they get identical replies when they send these same questions to China...so I fail to see the point of all that

One of the sales managers remembered having heard the CR concept but was first unable to verbalize what such terms could incorporate. After some examples given by the interviewer, the manager summarized the company CR to be the jobs and the income that the firm provides to the local people. When asked for his opinion on the possible benefits of CR, he acknowledged that the ecological perspective and the Finnish origin of timber could be utilized more in the promotion of wood products both domestically and overseas. Wood is a renewable resource and this aspect has not yet been sufficiently emphasized in the marketing of wood based products, he commented.

One of the production managers mentioned having visited the web pages of some major Finnish forest industry companies prior to the interview. He had discovered that regardless the unfamiliar concept, the phenomenon itself and the activities related had turned out to be familiar to him.

> I visited a couple of websites of those bigger companies yesterday and they all listed a million things that they called "corporate responsibility"...In my opinion, we here do all of those things, too – I just never thought about it before...every day you learn something new...seriously, I think that our firm is managing well all of these aspects of CR ...they are considered in everyday decision making

A wood procurement manager had heard of CR concept a few years earlier when CR related issues had been discussed at the workplace: the interviewee remembered thinking at the time that instead of being a novel discovery, CR perspective had in some way been on the agenda of the company throughout its long history. He identified the present day CR of the firm to show in its many memberships in various organizations and its participation in projects with local schools, for instance. While discussing the economic dimension of CR – the responsibility to be profitable and thus secure the existence of the firm – the manager responded: "it is exactly what it is". He could not see that CR would have potential to be a source of competitive advantage for Finnish forest industry SMEs, except possibly the origin of roundwood from certified forests could be emphasized more. The interviewee highlighted the local aspect of CR.

> I think that our CR shows in this surrounding community, with the stakeholders that are geographically closest to us...our CR shows in the conduct of our white-collar workers, in the way that they carry out our business...people take notice of these things – even if it doesn't get measured as such

A sales manager remembered having heard the CR concept for the first time in the 1990s. He described the CR practises of the firm through legal and environmental aspects:

> We are an environmentally friendly firm in every way...we don't spill oil on the ground...we have never laid-off employees. It is self-evident that we conduct our business responsibly...if you do not practice CR you're bound to get trouble... and if you do, for instance, damage the environment or litigate with employees about contracts – well obviously it has a negative effect on the business

The manager was asked if he could identify any potential in any aspect of CR as a source of competitive advantage for the firm or the industry in general. In his opinion, the origin of wood and the chain of custody aspects have potential in the marketing of sawn timber. The environmental aspect and the certification stamp are important

according to the interviewee but he did not believe that "obeying the law" could be a source of CA.

Table 8 on the following page briefly summarizes the managers' perceptions of CR and its potential as a source of competitive advantage. In the table, the managers' responses are presented in the order of the supply chain, starting from wood procurement and ending with managers working directly with the customer interface.

Table 8. Managers' views on CR and its connection with competitive advantage

What constitutes CR	Corporate responsibility and CA	Position of manager
Compliance with law To be able to look people in the eye while walking down the street Good relationships with customers Injecting millions into regional economy	No potential in marketing; instead, potential for turning into "nonsense, like forest certification" Industrial customers cannot be won over with imagery	Wood procurement
Source of income to employees and contractors Paying taxes	Significance of CoC-certificates in consumers' purchase decisions is unclear	Wood procurement
Participating in projects with schools Economic responsibility toward owners Shows in the conducts of employees and in the relationship with the stakeholders geographically closest	No potential as a source of CA Possibly the environmental aspect could be emphasized in marketing, as far as the origin of wood is concerned	Wood procurement
Compliance with law is self-evident CR lives on "values level" in the firm Local roundwood acquisition and employment	Significant issue but the company is possibly too modest about its' CR activities which is "not so obvious to the outsiders" Long-term customers notice company CR practices	Production
Company considers dimensions of CR (economic, environmental, social) in every day decision making	PEFC certificate possibly a limiting factor in export markets (if compared to FSC); drivers of consumer purchase decisions are not always clear	Production
Provision of employment	Ecological perspective could be utilized more in marketing of wood products CoC-certificate is not a source of CA – it is a necessity	Sales
Environmentally friendly practises Job security of the employees	Environmental aspect (CoC) can be utilized in marketing Compliance with law cannot be utilized in marketing	Sales
Injecting millions into regional economy Paying taxes	CoC-certificates are important to consumers in the export market Foreign industrial buyers are interested in the working conditions of employees	Export sales
Image of responsiblity Commitment to customers: delivering what it is promised	Watered-down concept; cannot be converted into currency; no CA potential CR can only be practised locally	Marketing

6. Discussion

6.1 Starting point for the study

The purpose of this study was to consider how implementing corporate responsibility could benefit small and medium-sized Finnish forest industry companies and support their long-term competitiveness. The phenomena in the background of the study are the emerging societal trends that require businesses to consider the effects of their actions more comprehensively (Vidal & Kozak 2008a) and the increasing importance of mechanical forest industry and forest industry SMEs in Finland (Hetemäki & Hänninen 2009). Corporate responsibility has been a major consideration in forest industry for decades – first driven by the environmental pressures on the use of forests – but recently the social aspect has gained increasing attention in the society and in the enterprises (Panwar et al. 2006, Vidal & Kozak 2008b).

Previous studies on SMEs and CR have indicated that although the corporate responsibility aspect often is present in the decision making and the daily operations of SMEs, the companies find the concept fairly difficult to define; furthermore, communicating best practices to stakeholders is ineffective (Taipalinen & Toivio 2004, Murillo & Lozano 2006). Smaller businesses tackle responsibility issues differently unlike major corporations due to a variety of reasons, e.g., limited resources, competitive pressures and the scale of impact when implementing CSR (Fassin et al. 2007). Jenkins (2006) asserts that in order to triumph in the SME context, CSR has to be translated into practicalities and the enterprises must be able to identify the business benefits of their responsible practices.

The theoretical framework created for this study (p.28) suggests that SMEs should approach CR as a strategic issue, i.e., the companies should screen and identify those aspects of CR that are significant enough to affect the firm's ability to reach its goals (Galbreath 2009, Baron 2010). The resource-based view of the firm proposes that companies generally should seek sustainable competitive advantage based on those resources that are valuable, rare, inimitable and non-substitutable, i.e., difficult to imitate by the competitors. Typically these resources include capabilities, processes and knowledge (Barney 1991).

The empirical data of this study was collected by interviewing line managers of medium-sized Finnish sawmilling companies on their views on the sources of competitive advantage of the firm and on corporate responsibility. The reason for this dual approach was to discover if, in effect, the elements identified as competitive advantage could be considered CR – and if the managers themselves would acknowledge them as CR. The opinions of these experts were regarded as valuable information since managers are considered "narrow stakeholders" of a company; they are a group vital for the success of the firm with a special duty to watch over the health of the company. (Freeman 2002).

The three case forest industry SME companies of the study were chosen on the grounds of their non-identical product portfolios and locations. Additionally, based on their external corporate communications, the firms already are addressing aspects of CR in their operations. Forest industry sector faces a variety of stakeholder pressures – regarding the use of forest resources, for instance – and CR is gaining momentum as a way to reduce risk (Vidal & Kozak 2008b, Vidal & Kozak 2008a). It was therefore assumed in this study that the amount of forest industry SMEs who comprehensively address CR will increase in Finland in the future. The sample of a case study can be selected to represent a likely future population (Gomm et al. 2000).

6.2 Key findings

6.2.1 The competitive advantages of medium-sized Finnish sawmills

Four main themes emerged when the informants were asked to identify specific sources of CA in their respective companies: production technology, roundwood acquisition, customer focus in designing products and services and human resources.

The single contributor to CA that was most emphasized by the interviewees was the **advanced production technology** of the mills. The managers highlighted the importance of accurate log grading, efficient use of roundwood and guaranteeing the promised technical quality of the sawn timber. The optimal utilization of raw material – producing the optimal product from each log – is of growing interest in sawmilling industry: major benefits can be gained if the mill can reduce the amount of products that

do not meet the quality requirements (Flodin et al. 2008). Technical efficiency (converting inputs to outputs) has a direct effect on costs; wood industry's success relies on improving efficiency and productivity as any gains in productivity increase the real income. At industry level, the enhanced productivity compensates for price increases and boosts competitiveness. (Salehirad & Sowlati 2006). The findings of this study regarding the perceived importance of advanced technology corresponds with the results of Lähtinen (2009) who interviewed managers of medium-sized and large Finnish sawmills on their resource valuations: the resources most valued were the capabilities of the personnel and the moderate cost of raw material, but appropriate technology was considered particularly significant by the unrefined sawnwood producers and unfocused raw material users. In a recent study on strategy transformations of Swedish sawmills (Hugosson & McCluskey 2008), the researchers discovered that firms engaged in a product value adding strategy by improving production equipment and processes in order to respond to customer needs with more exact product specifications.

The significance of **efficient wood procurement** was the other dominant theme while discussing sources of CA. Securing the access to roundwood at a reasonable cost is vital to a sawmill according to the interviewees. Roundwood acquisition forms one third of the total costs of sawmilling in Finland (Metsäalan strategisen kilpailukyvyn työryhmä 2009). As discussed in the previous paragraph, raw material was considered a particularly valuable resource by the managers interviewed by Lähtinen (2009); access to moderately priced raw material had also affected the financial performance of the mills to a great extent in the recent past. The importance of securing raw material supply as a means to improve competitiveness was also stressed by production and market experts of Swedish sawmills (Johansson 2008). In the U.S., hardwood sawmill managers were surveyed regarding their perceptions on globalization and its effects on their business. Concerns regarding transportation costs and log availability rivalled the apprehensions regarding globalization (Buehlmann et al. 2007).

Highlighting roundwood and technology as the foundation of business underlines the local nature and strong raw material orientation of Finnish SME sawmills. **Customer focus** – acknowledged as another principal source of CA by the informants of this study – is greatly influenced by the aforementioned foundation: customer selection is based on the available roundwood and technologies facilitate the delivery of promised quality

to customers. Long-term relationships with industrial buyers were considered particularly valuable by the line managers; the demands from upper supply chain acted as drivers for certain practices (CoC-certificates, statements regarding employee working conditions). The findings regarding stated customer orientation are congruent with the results of Stendhal (2007) who interviewed development managers in Finnish and Swedish sawmilling industries on product development practices: industry and market changes, which in turn lead to changing customer needs, were the most common driver of product development. Interestingly, the managers interviewed in the study of Lähtinen (2009) rated informal collaboration with customers amongst the least valuable resources of the mill, although analyses of performance showed that collaboration had in fact had an effect on the profitability and multidimensional performance of the sawmills. Sharma and Henriques (2005) studied managerial perceptions on stakeholder influence and sustainability practices within Canadian forest products industry. The studied companies adhered to the upstream supply chain demands so that major customers could, in turn, satisfy the sustainability demands of their own customers (the end-consumers)

The fourth main source of CA identified by the line managers of sawmills in this study was the **competent workforce**. Skilled staff with a long history with the firm and its customers was seen as a way to keep knowhow inside the firm and to guarantee customer quality. This finding is congruent with the aforementioned findings of Lähtinen (2009) who discovered the capabilities of the employees to be the resource most valued by the managers of large and medium-sizes Finnish sawmills. Crespell and Hansen (2009) surveyed employees of forest industry companies in the US regarding the phenomena that lead to company innovativeness. The findings suggested two antecedents to perceived innovativeness of the firm: organizational commitment and climate for innovation. The committed workforce and the welcoming of employee input were also cited by the informants of this study. Bonsi et al. (2008) developed a conceptual framework to approach SCA in a forest industry from the resource-based-view. The authors stated that a firm uses its capabilities efficiently if it succeeds in integrating the knowledge of the employees into the operations; the broader the scope of knowledge the more difficult it is for the competitors to imitate it. Employee capabilities thus contribute to achieving SCA.

The four main themes discussed in the context of CA – technology, wood procurement, customer orientation and the competency of employees – can be seen as closely linked and intertwined. Nonetheless, according to the interviewees the paramount starting point for business in Finnish sawmilling SMEs is the type and amount of raw material accessible to them. Advanced technologies are employed to utilize the raw material as efficiently as possible. The available roundwood steers the mills toward pursuing particular customers, and competent employees with a long history with the firm are familiar with those customers and their specific demands. Customers recognize the quality of products and service, repeat their transactions and ideally, build a long-term relationship to with the firm. This creates a source of competitive advantage to the company in question.

6.2.2 What constitutes CR

The line managers were asked to define corporate responsibility and to describe how it is implemented by the firm. The informants related to CR through the firms' relationship with three key stakeholder groups: the employees, the surrounding community and the customers – although the majority of the managers did not use the word "stakeholder" in their definitions and descriptions. Stakeholder orientation of SMEs has been documented in previous studies; according to Jenkins (2006), SMEs are unlikely to see CSR in terms of brand risk and reputation: issues closer to home are more likely to receive attention from the managers. Case companies studied in the U.K. by Jenkins also expressed their CR through their responsibility to their key stakeholders, i.e., employees, customers, suppliers, shareholders, community and the environment – but did not generally use the term "stakeholder" while defining their responsibilities.

Concerning the firm's relationship with its **employees**, the interviewees perceived providing work, income and job security to the employees to be CR. "Enlightened employee policies", as described in a SME case study by Perrini and Minoja (2008), translated into the owner-managers' efforts to continuously increase the level of employee satisfaction by providing economic advantages and on-going training. The four case companies studied by Murillo and Lozano (2006) defined the CSR concept through specific actions of the firm and responsible treatment of employees among the most important CR outputs of the company. German SME entrepreneurs' responsible

practices toward their employees resulted in enhanced value creation of the firm, mediated by the perceived positive reactions of these stakeholders, i.e., cost reductions and increased profits. (Hammann et al. 2009).

The surrounding **community** is a major object and beneficiary of company CR according to the interviewed line managers: companies provide not only direct employment and income to their own employees but also a source of income to local forest owners and supply chain partners. CR shows in the conduct of the employees and in the relationship of the firm with its geographically closest stakeholders. Strong connection to the surrounding community has also been recognized in many earlier SME studies (e.g., Observatory of European SMEs 2002, Jorgensen & Knudsen 2006, Jenkins 2009).

Customer orientation of sawmills has already been discussed in the context of competitive advantages. In discussing CR specifically, several managers defined CR and the CR executed by their respective companies through customer perspective: CR to them is delivering quality to customers. The stated customer focus of SMEs in other industry sectors has been documented by, e.g., Murillo and Lozano (2006) and Jenkins (2009). Studies with opposite results have also been published; e.g., Sweeney (2007) found that SMEs were rather vague in describing CR as "responsible business" whereas larger companies described CR through their key stakeholder relationships (customer, employees, environment and community).

Several interviewees of this study equalled CR with legal compliance and corporate tax payments. Relating CR to law and authorities has been documented in several earlier studies on SMEs (e.g. Taipalinen & Toivio 2004, Lähdesmäki 2005). The definition used in this paper maintains, however, that CR constitutes of *voluntary* actions of companies (European Commission 2001). Compliance with law and other binding agreements is regarded here as a basic requirement to all companies, not a manifestation of corporate responsibility – although Carroll (1991), for instance, has included the legal aspect in his definition of CSR.

6.2.3 CR+CA+SMEs = untapped potential

In the last part of the interview, the managers deliberated on CR in the context of CA: they were asked to give their opinion on the utilization potential of corporate responsibility in the case of forest industry SMEs. The responses ranged from extremely sceptical to those who recognized unharnessed marketing potential in the "greenness" and certified origin of wood products. Lähtinen (2009) has recommended that sawmills should rely on "less conventional resources" and employ intangible resources while seeking to enhance competitiveness and added value. Already a decade ago, European SME managers from various industry sectors could a identify business benefits (customer loyalty, community relationships, satisfying customer demands) from engaging in voluntary environmental and social activities (Observatory of European SMEs 2002). Nielsen and Thomsen (2009) interviewed middle managers of SMEs and noticed that the informants did not consider CSR to be a strategic tool but an issue of ethics and morals.

An interesting perspective to the issue was added by one of the interviewed managers of this study who acknowledged that the "obvious" CR practised by the firm "may not be so obvious to the outsiders". As discussed earlier in this paper, several previous studies have shown that SMEs often practice CR without recognizing or articulating it (Sweeney 2007, Fassin 2008, Nielsen & Thomsen 2009); the findings of this study strongly support the results of prior research in other industry fields. The table "**CR activities of a forest industry SME"** (p.31) suggested a wide variety of areas where the CR aspect could be considered by the smaller forest industry firm, based on literature. During the interviews with the representatives of the three case companies, almost every individual activity listed on the table was brought up by the informants – to the extent that it is easier to list the activities that did *not* get mentioned in the course of the interviews (environmental patents and R&D, communicating strategy to the whole organization, verbalized mission and the systematic monitoring societal trends). All other activities (of table 3) were discussed during the course of the interviews – but most often they were not introduced by the managers while identifying CA or defining CR; instead, the informants covered many of the activities while describing organizational routines, reflecting on past events, explaining grounds for strategic choices etc. Based on this finding, it is possible that responsible business practises are

so closely woven into the fabric of everyday operations of the companies that they "practise without preaching": CR issues and practices do not generally get recognized as such by the managers.

When looking for connections between identified sources of CA and identified ways that CR is implemented by the company, only two common themes emerged: the firm's relationship with its employees and its customers. Constructive affiliation with these two key stakeholder groups is both a contributor to competitiveness and a subject of responsible corporate action to the case companies, based on managerial evidence. When considering the value of these two stakeholder relationships from the resource-based-view of the firm (Barney 1991), their successful management builds into a source of sustainable competitive advantage. Long-term association with a key stakeholder is valuable, rare and unique in a way that cannot be easily imitated by competitors; it is therefore a strategic resource of the firm. In reference to the theoretical framework of this study, the management of these relationships thus constitutes a strategic CR issue to the firm.

Kurucz et al. (2008) have argued that in order for CSR to gain attention in business world, there has to be a business case to support; i.e., there has to be benefits that can be identified by the firms. The theoretical framework of the study (p.28) recognized the importance of building a business case and suggested that SMEs should actively screen and consider the many aspects of CR – but due to limited resources only commit to the causes that are critical to them. Accordingly, only this strategic CR can contribute to sustainable competitive advantage.

The findings of this study have shown that Finnish forest industry SMEs apparently do not have trouble identifying various stakeholders (the generators of CR issues) or implementing CR. If a problem exists, it is the fact that the companies do not recognize their own best practices and therefore potentially under-utilize the possible benefits brought on by their own CR stewardship. It is highly unlikely that the stakeholder expectations on the overall performance of corporations would diminish in the future – quite the contrary. Therefore forest industry SMEs could explore the possibility of gaining first mover advantage. At the very least, they are wise to keep a keen eye on the

developments in the society and in the markets when expectations on overall corporate performance are in question.

6.3 The merits and the weaknesses of the study

This was a qualitative study where three case companies selected to represent the population of almost 2700 Finnish forest industry SMEs. Small and micro-sized companies were ruled out in the study design as they lack the mid-level management whose perceptions were the object of empirical primary data collection. It would have been ideal to sample case companies to represent wood panel producers and chemical forest industry but none were available of the suitable company size. Obviously the three sawmills cannot represent the whole SME sector of Finnish forest industry. Although the case companies were carefully selected to represent diverse portfolios and different geographical locations, the companies turned out to be relatively homogenous in their business activities and corporate statements – and also in the managerial perceptions on CR and CA. The diversity of the population, one can assume, is far greater.

Qualitative case study approach can be justified as this was an exploratory study of a phenomenon in new context (Silverman 2000). Additionally – based also on the comments of some of the informants – the response rate of a survey study might have been very low as the topic was somewhat unfamiliar to the respondents. Due to scheduling difficulties, no face-to-face sessions with the informants could be arranged; all interviews were carried out over the telephone and were rather concise. While personal contact and allowing more time to deliberate on the topics would have undoubtedly produced more material, the gathered material was however quite rich and enabled the analysis of research questions. A technical limitation concerning the telephone interviews is also that they were not recorded but the interviewer made notes about the responses of the interviewees; in spite of every effort to capture the contents of discussions as completely as possible, some data is inevitably lost in the process. Language barrier in writing the thesis could also be an issue as the interviews were conducted in Finnish which is the mother tongue of the informants and the interviewer.

One can justifiably question if all of the finer tones in the managers' comments and the key message of their responses has been accurately and representatively presented in the results.

Initially, it was intended that the managers would be first interviewed regarding the strengths of the company, without indicating CR as the main topic of the study. The reason for this strategy was to eliminate a possible "window dressing" (Nielsen & Thomsen 2009) for the interviewer. This approach had to be abandoned for contamination fairly soon as the executive managers of the case companies requested to know the specific scope of the study before giving permission to interview employees. Therefore, all informants were aware of the CR focus before their interviews.

The reliability and the validity of the study have been ensured and improved by utilizing the several tactics and protocols. Silverman (2000) discusses how in a qualitative study only short extracts of data can be displayed to the readers because of the shortage of space; this in turn raises questions regarding the consistency in interpretations of the researcher. To improve the reliability of the observations in this study, readers have been presented with fairly extensive extracts of primary data; the key contents of responses have been summarized in clear, self-explanatory tables at the end of each results sub-chapter. Categorization is based on representative, current literature – which is presented – and its operationalization into specific, identifiable activities in this context. This enables the reader to estimate if the interpretations of the researcher have been executed in a consistent way. The risk of "anecdotalism" – only using partial data and not attempting to analyse contradicting data – has been addressed in the design based on the theoretical framework of the study. By choosing a specific perspective on the topic and formulating research questions accordingly, majority of raw data gathered was usable to begin with. In processing data, the issues clearly outside the scope of the study (e.g., the roundwood distribution by the species) could be extracted. The semi-structured form of the themed interviews allowed for and anticipated topics and themes to be introduced by the informants; this input was considered valuable data and therefore carefully documented and analyzed. A formal case study database with all raw data was established, in case independent investigators would like to review the evidence directly.

The construct validity of the study has been ensured by using multiple sources of evidence, i.e., sampling three case companies to collect more robust evidence and by collecting several interviews from each company. The thesis paper has been constructed with great care to represent the research process in a systematic way: a chain of evidence has thus been established in a way that allows the external observer to easily follow the steps taken by the researcher The external validity of a case study relies on analytical generalization: the results are linked a broader theory. In this case the external validity of the study has been enhanced by building a rich theoretical framework as suggested by Yin (2003). The internal validity of the study has been ensured by linking the results of the study to the existing literature; this is particularly important in this study where the findings are generated from a fairly limited number of cases (Eisenhardt 1989).

To discuss the merits of the study, forest industry SMEs have not been a subject of research in the context of corporate responsibility in Finland, neither could studies on this specific topic in other countries be found by searching peer reviewed journals. Therefore this paper fills a gap in scientific literature. The decision to obtain mid-level managerial input can also be considered strength in this study: getting pragmatic perspectives on this highly novel topic can help the interested parties to advance good CR practices more efficiently. It is possible – and desirable – that the busy professionals interviewed for this study verbalized their honest opinions when asked about CR; this impression is supported by their obvious frustration when moving to the CR part of the interview. Bird and Waters (2002) have discussed the phenomenon known as "the moral muteness of managers" where managers often are reluctant to describe their moral actions in moral terms. Managers prefer to describe organizational interests, economic good sense and practicality as the drivers of the actions which, in fact, honour morally defined standards.

The theoretical framework of this study (p.28) could explain appropriately the phenomena discovered in this study: allowing the SMEs and their managers the option to choose what kind of CR they want to implement offered a framework flexible enough to incorporate all findings under this umbrella theory without leaving deviant or unexplained cases. Flexibility – and vagueness – in CR literature is a documented problem (Fassin 2008). Approaching CR as a strategic issue – as suggested in the

theoretical framework – aspired nevertheless to recognize the presumed reality of SMEs that not all activities related to corporate responsibility can be implemented, yet several aspects of the phenomenon should be considered.

The supply chain perspective was not utilized and analyzed in this study in any way expect in giving the manager's job title in the context of his comments. The supply chain point-of-view might have provided some useful insights but from the small sample of nine informants and three supply chain "positions" presented (wood procurement, production, sales/marketing) nothing reliable could probably have been deduced about regarding the relationship between the opinions and the positions. One can also discuss if approaching CR from strategy and CA point-of-view was the most fruitful approach to explore the attitudes of managers. Perhaps the stakeholder theory could have been employed more directly and the managers could have been directly asked to identify the key stakeholders of the firm, instead of prompting them to introduce CR definitions themselves. These approaches can be considered in possible forthcoming studies.

7. Conclusions

This study has explored corporate responsibility in the context of Finnish forest industry SMEs. The empirical data collected from the line managers of case companies revealed that although the firms implement CR in many different ways, it often did not get recognized as such by the interviewees, who in many instances identified non-CR issues – like legal compliance – as a form of corporate responsibility. The SME managers defined the CR implemented by the firm mainly through the relationship with key stakeholders: employees, customers and the surrounding community. Generally, the line managers of SMEs did not deem CR related activities to be a source of competitive advantage to the firm.

A manager at a sawmill can justifiably ask three questions regarding CR:

***What** is it – in exact terms – and what is it not?*

***How** should it be implemented by this company?*

***Why** should it be implemented by us?*

Regardless the vast body of academic literature, these three questions still cannot be answered in a concise, uncontested way that would satisfy the pragmatists at the mill. In order to answer the aforementioned questions in a satisfactory way and to promote the adoption of CR practices in forest industry SMEs, support measures and further research is required.

Definitions of the CR concept have to be translated from scientific and management literature into practicalities and identifiable actions, so that companies can more easily recognize their own best practices and consider possible ways to utilize them in their business operations. To facilitate this, the authorities striving to promote CR (e.g., the European Commission) must publish more examples of SMEs – and from a wider variety of industry sectors – who successfully and comprehensively address CR.

To answer the question "why CR", it has to be calculated beyond doubt that there is indeed a business case, i.e., identifiable, measurable business benefits from engagement in CR for the companies. For instance, studies are required to discover if the CR best

practices of SMEs can provide a source of competitive advantage in the domestic or the export markets. To enable this it is first necessary to identify who the competitors with regard to responsible practices in these markets are: are the Finnish SMEs in Finland competing with major Finnish forest industry corporations, other Finnish SMEs or foreign importers. Moreover, it is vital to learn what customers/consumers think about CR: do insights differ between industrial customers and end consumers, and how much weight they give to the CR stewardship while purchasing wood products domestically and overseas. Consumer studies on the significance of chain of custody certificates were also suggested as a future research topic by some of the informants of this study.

It is also possible that CR of forest industry SMEs is a *"non-issue in Finland"*, like some of the line managers interviewed for this study stated. Social, environmental and economic responsibility is implemented in a way that is not only in compliance with the law but with the norms of the society, the surrounding community and the key stakeholders. Major multinational companies are a different matter altogether as – regardless their CR practices – they will continue their existence under public scrutiny because of their large-scale operations.

If this is the case and there is no competitive advantage angle for the SMEs to pursue on the domestic ground, then the export market should be actively charted to gain a possible first-mover advantage as the environmental trend continues to surge and European consumers are becoming more and more aware of their purchase choices. Large forest industry corporations are at times getting a great deal of unfavourable publicity due to the impacts of their global operations. The smaller firms might benefit from exploring this opportunity to step forward and make their CR stewardship known to a wider audience. Acknowledging the relatively limited resources of SMEs, collaboration with other firms within the industry might be the most rational approach while developing a European-wide, recognizable brand out of responsibly produced Finnish wood products from mills "with a face".

Based on the findings of this study, Finnish forest industry SMEs have integrated responsible practices into their business operations so intimately that they have some trouble recognizing it themselves, let alone verbalizing it efficiently to their external stakeholders. The firms appear to practise CR while at the same time they "preach" very

modestly. The old philosophical puzzle asks if a tree falling alone in the forest really makes a sound. In the context of SMEs and CR, one can deliberate that while a wealth of CR activities are performed with great integrity and commitment by the firms, the sound of these actions is only audible to the closest existing stakeholders, yet the sound and its echo could be heard much farther. Overlooking the potential of something that apparently comes naturally to these firms – a responsible approach to business – could prove to be very short-sighted.

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Appendix

The themed interview form

1. **Background information**

- company
- name
- job title
- work history with the company

2. **Internal operations:** When considering the activities that take place at the mill, can you identify specific sources of competitive advantage? (e.g., technologies, other processes, end-product qualities etc.)

3. **External operations:** When considering the operations of the firm that take place outside the mill, can you identify specific sources of competitive advantage? (e.g., wood procurement, logistics etc.)

4. **Internal interactions:** When considering how activities at the mill are organized and how people are managed, can you identify specific sources of competitive advantage? (e.g., organizational structure, communications etc.)

5. **External interactions:** When considering external stakeholders of the firm and the relationship with these stakeholders, can you identify specific sources of competitive advantage? (e.g., in the relationship with customers, forest owners, surrounding community etc.)

6. **CSR**:

- How do you define CR in general terms?
- When did you first hear the term "CR" for the first time?
- How is CR implemented by the company you work for?
- Do you think CR is an important source of competitive advantage to the firm now? Do you think it will be important in the future?