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## Financial performance in Finnish large- and medium-sized sawmills: The effects of value-added creation and cost-efficiency seeking

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### Abstract

The business environment of Finnish sawmill industry has changed notably since the 1990s. As a result of these changes, maintaining competitiveness and acceptable business success in sawmilling is more challenging than before. Manufacturing higher-priced value-added timber products has been highlighted as the main option for achieving sustainable financial performance, but its outcome has not been studied previously. In this paper, the effects of cost- and value-added components on the firm-level financial performance of 27 large- and medium-sized Finnish sawmills in 2000–2004 are evaluated by using regression analysis. The proportions of material and salary expenses of turnover are applied as measures of relative cost-efficiency. The commitment to value-added creation is assessed by the share of investments and value-added of the turnover. The results indicate that cost-efficiency indicators explain shorter-term financial performance better, than value-added creation, which affects longer-term financial performance and future turnover growth. Thus, from the managerial point of view, in the short term, cost-efficiency is a prerequisite for the business,

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while in the long term, value-added creation is also needed to support the economic sustainability of the business.

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## Introduction

Competition faced by the Northern European sawmill industry has increased drastically during the previous decade. In the main markets of Japan and Western Europe, the growth of structural lumber consumption has slowed down with the market penetration of oriented strand board (OSB) and engineered wood products. Poor lumber price development has been aggravated in Western Europe by the excess supply problem caused by increased imports from Eastern-European countries and Russia (e.g., [Finnish Forest Research Institute, 2005](#)). Simultaneously with these changes in lumber markets, sawlog prices and wages have increased, affecting negatively on the cost competitiveness and income structure of the industry.

Manufacturing higher-priced value-added timber products has been highlighted as the main option for achieving sustainable financial performance. Instead of manufacturing mass-produced lumber and concentrating on raw-material oriented strategies, sawmills have lately been investing in value-added production, increasing their usage of intangible resources to create higher-priced commodities and providing tailor-made services for customers (e.g., [Bush and Sinclair, 1991](#); [Korhonen and Niemela, 2005](#)).

Despite the existing empirical research on the production and marketing strategies implemented in sawmills (e.g., [Bush et al., 1991](#); [Niemela and Smith, 1996](#); [Smith et al., 2004](#)), the knowledge of the effects of value-added and efficiency seeking on the actual financial performance of sawmills is very limited. In addition, in these assessments, comparable accounting information has been used only rarely ([Lahntinen, 2007](#)), and the scanty existing evidence based on accounting figures is mixed ([Roos et al., 2001, 2002](#)).<sup>1</sup> The aim of this study is to fill the gap in the existing empirical literature on the business success of Finnish sawmill industry in order to better understand the potential effects of value-added creation and cost-efficiency seeking on the financial performance of sawmills.

The composition of the Finnish sawmill industry is diverse, comprising of multinational companies listed on the stock exchanges and smaller, non-integrated

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<sup>1</sup>Roos et al. (2001) indicated that in Swedish sawmills value-added production increased profit margins, while cost reduction and higher efficiency did not seem to create a similar outcome. However, since in the study, business success was evaluated merely by using income statement information instead of also utilizing balance sheet data, a general view of business success, i.e., in terms of profitability, was not available.

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