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Reprint of "Organizational restructuring in British Columbia's forest industries 1980–2010: The survival of a dinosaur"☆

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A B S T R A C T

During the Fordist boom decades from the 1940 to the 1970s British Columbia's forest industries were dominated by large, vertically and horizontally integrated companies and the mass production of standardized, low-value commodities. The severe recession of the 1980s threatened this domination. The resource endowment was in decline, conflicts over forest values became widespread and booming and busting became routine. Corporate restructuring in BC's forest industry, led by Canfor, BC's only major forest corporation to survive from Fordist days, has survived by a strategy of cost minimization, mass production, M&A and geographical expansion, rather than pursue more innovative strategies. This paper explains this choice. Conceptually, the analysis draws upon evolutionary theories of the firm in relation to resource industries. Empirically, a case study of Canfor's restructuring is outlined. The paper argues that Canfor's highly conservative 'back to the future' strategies are consistent with theoretical explanations of vertically integrated firms, and have been reinforced by the emergence of a volatile, uncertain and conflicted forest economy in BC.

Introduction

During the Fordist boom years from the late 1940s to the early 1970s, British Columbia's (BC's) forest industry experienced a spectacular expansion. The production of the main commodities, especially lumber, plywood, pulp and paper, was increasingly organized by relatively few vertically integrated corporations (Hayter, 1976). The severe, prolonged recession of the early 1980s, however, stimulated widespread plant closures and job losses and marked a turning point in the fortunes of BC's forest industries, and for corporate planning. Production costs were among the highest in the world, technological obsolescence was widespread, harvest levels had more or less peaked, and in evolutionary terms the industries were seen as mature, on the plateau or sunset stage of a declining resource cycle (Clapp, 1998). Subsequently, a pine-beetle infestation that has ravaged vast swaths of interior forests has made future timber supply highly uncertain. Moreover, various 'wars in the woods', centred on trade protectionism in the US against Canadian lumber exports and demands to remap BC's forests away from their traditional priority on industrial values to more strongly reflect environmental and Aboriginal interests, were sparked by the 1980s recession (Edenhoffer & Hayter, 2012). Further, in contrast to the relatively minor perturbations experienced during Fordism, markets for BC's forest industries have become extremely volatile, and the theme of restructuring both at the corporate and aggregate industry level has become an ongoing mantra. This paper addresses the nature of this lengthy period of 'permanent' restructuring with respect to the integrated corporations dominating the industry, especially Canfor which is now the biggest forest company in BC, the second largest North American softwood lumber producer, and the main corporate survivor from Fordist days.

In the midst of the early 1980s recession, several studies, including by industry friendly consultants and task forces (Woodbridge, Reed and Associates, 1984), argued that BC's forest industries were in a 'commodity box' and needed to shift away from a 'commodity culture' with a focus on cost minimization and mass production of standardized low-value products to become more innovative with an emphasis on enhancing value. To some extent, a modest growth of small firms processing a variety of secondary wood products reflects this plea (Rees & Hayter, 1996; Reiffenstein, Hayter, & Edgington, 2002). However, among corporate leaders the commodity culture has been entrenched.

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MacMillan Bloedel (MB), the dominant firm for many decades, invested in several value-added, product differentiation initiatives that drew on its investments in research and development (R&D), but financial problems led to its takeover, and subsequent dismemberment (Hayter, 2008). Canfor's strategies, on the other hand, represent the dominant corporate response to restructuring. It has survived by emphasizing cost minimization through rationalization, consolidation and acquisition, and even a degree of vertical disintegration. Indeed, Canfor may be labelled a dinosaur for two reasons – it has been large for a long time, and its strategies reflect a back to the future emphasis on a limited range of commodities.

This paper's objective is to explain the choices by large forest product corporations in BC, especially as illustrated by Canfor, to remain in the commodity box. Conceptually, the theme of corporate strategy, that recognizes that corporate evolution is not a random walk but follows a common thread as firms progressively develop competitive advantages, is the point of departure for the analysis (Andrews, 1980; Ansoff, 1968). Corporate strategy is itself rooted in closely related resource, evolutionary and institutional theories of the firm, pioneered by Penrose (1959), and in transaction cost analysis, pioneered by Coase (1937). While the evolutionary-resource theories of the firm emphasize that corporate growth builds upon accumulated know-how, competencies and capabilities (Nelson & Winter, 2002; Nonaka, Toyama, & Nagata, 2000), transaction cost analysis stresses choices between different types of (open, relational, internal) markets (Williamson, 1985, 1991). Within economic geography the location dynamics of corporate strategies have long been explored (e.g. Hayter, 1976), and recently there has been especially interest in the spatial-evolutionary trajectories of firms in relation to path dependent behaviour, hybridization and related variety (Majek & Hayter, 2008; Martin, 2010; Maskell, 2001). Typically, the literature on corporate strategies and evolutionary dynamics has focused on secondary manufacturing and service activities. However, large corporations dominate many resource sectors and their behaviour is intimately connected to the specialized communities and regions in which they are located. Moreover, corporate planning in resource sectors is complicated by patterns of exploitation that reduce the quantity, quality and accessibility of resource inputs and vulnerability to booms and busts, especially where export dependence is high. Further, resources are subject to social appraisals and in recent decades society has placed increased emphasis on their non-industrial values, especially in relation to the environment, that in turn require firms to rethink strategies. In BC's forest economy, economic crisis and the re-appraisal of resource values are closely connected.

This paper's thesis is that in BC's forest sector the conservative strategic choices by large corporations to remain in the commodity box have been reinforced, not changed, by the ongoing boom and bust cycles that have characterized the industry since 1980. In the mature stage of the resource cycle, BC's forest product firms expected fibre supplies to level-off while technological changes, especially the incorporation of micro-electronics, provided possibilities for both flexible mass production and specialization. However, rapid shifts between boom and bust conditions and ongoing trade and land use conflicts have further threatened the forest industry in terms of market access and supply conditions, and created considerable uncertainty for corporate planning. As a consequence, large firms have focused on long-established cost-minimizing conventions and emphasized large-scale primary activities, in association with a degree of vertical disintegration, and with hopefully fast recovery of invested capital. Further, as foreign firms have divested their subsidiaries in the province, long-standing BC-based firms, including Canfor, have started to invest elsewhere.

Within economic geography, this study contributes towards evolutionary approaches by, exploring how firms in mature industries respond to crisis, a topic recently rejuvenated by Schamp (2005). Empirically, the analysis is part of a broader inquiry into the ongoing restructuring of BC's forest sector that draws upon data from Statistics Canada and other government sources, a data base of forest product activities between 1980 and 2010 constructed from Directory and personal sources, field-work and corporate annual reports (Edenhoffer, 2012). This study particularly focuses on Canfor's annual reports to provide the data for longitudinal profiles (1983–2010) and the interpretation of the firm's strategies. The remainder of the paper is in three main parts, beginning with a summary of evolutionary theory in relation to resource firms and the role of crises. Second, selected trends in BC's forest sector are noted, including with respect to the turnover of large firms. Third, Canfor's performance since 1980 is examined in some detail.

Corporate strategies, resource firms and crisis

The literatures on corporate strategy and evolutionary (and institutional) interpretations of firm behaviour are closely connected (Foss, Knudsen, & Montgomery, 1995; Rumelt, Schendel, & Teece, 1991). For Ansoff (1968) and Andrews (1980) the idea of corporate strategy (and planning) encourages firms to select an allocation of investments that most effectively utilize accumulated (physical and human) resources and know-how or expertise to meet long run goals related to growth, survival, profitability, and market share. From this perspective, corporate resources and know-how are firm- as well as industry-specific and their exploitation has to be judged in relation to the opportunities and threats posed by rivals in serving markets. As with business studies of strategy, evolutionary and related theories of the firm in economics focus on actual (rather than abstract) behaviour, especially of large firms, over long periods of time. According to Kogut and Zander (2003, 516) a firm is a "social community whose productive knowledge defines a comparative advantage". The related notions of 'competencies' and 'capabilities' (Nonaka et al., 2000; Teece, 2000) and 'entry advantages' (Caves, 1971) argue that the evolution of firms is based on the creation, development and transfer of knowledge. Links between corporate strategy and evolutionary/institutional models of the firm have been further enriched by Williamson's elaboration of transaction costs that recognizes that markets are not free and that the exchange of goods and services can occur within various institutional arrangements associated with distinctive costs and uncertainties. From this perspective, different corporate strategies are particular forms of market governance that involve judgements not only about efficiency but also of control. Penrose (1959) further recognizes the importance of economies of size and growth in understanding firm evolution and strategies. Thus the knowledge-based competitive advantages of firms are mutually reinforced by various forms of bargaining power and abilities to restrict competition while under-utilized managerial resources available to contemplate fundamental changes in the size and scope of operations. Corporate planning departments formally institutionalize this capacity.

These institutional and strategic interpretations that stress the connected, path dependent nature of corporate evolution are reinforced by considerations of place and space (Hayter & Edgington, 1997; Maskell, 2001). Thus corporate resources and learning typically originate and develop in particular places. Subsequently inter-regional and international growth is shaped by the development of information and bargaining networks, especially in relation to markets, suppliers and rival behaviour, and judged in terms of connections to existing facilities. Strategies of vertical and horizontal integration, and their derivatives, create coherent spatial