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Service logics of providers in the forestry services sector: Evidence from Finland and Sweden☆

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ABSTRACT

Non-industrial private forest (NIPF) owners are the most significant ownership group in both Finland and Sweden. Meeting the industrial requirements for a stable roundwood supply has traditionally dominated the services targeted at them, but changes such as urbanization and a higher level of education have diversified the NIPF owners' service demands. Therefore, it seems that the traditional 'roundwood supply approach' may no longer match the service needs of all customer groups.

Based on the concept of service-dominant logic, the empirical objective is to better understand the challenges presented by the ongoing market renewal in Finnish and Swedish forestry services. Using a qualitative approach and data from 17 thematic expert interviews carried out within Swedish and Finnish forestry service organisations, we aimed to identify potential opportunities and barriers with respect to creating new services in NIPF owner markets.

According to the results, concentrated markets dominated by a small number of players are challenging the surroundings for new enterprises to evolve in. The lack of dynamic middle-sized companies in the sector coupled with difficulties in adopting a more cooperative mindset is proving to be hindrances.

1. Introduction

Finland and Sweden are among the most extensively forested countries in Europe. Sweden has 28 million ha of forest land (69% of the total land area) of which 22.5 million is classified as productive, while Finland has 22 million ha (73% of the total land area) of which 20.1 million is productive. There are almost 228,000 private forest estates in Sweden and 374,000 in Finland, their mean size in Sweden being some 50 ha and in Finland about 30 ha (FAO, 2011; Finnish Statistical Yearbook of Forestry, 2011; Swedish Statistical Yearbook of Forestry, 2011).

Private forest owners are the most significant ownership group in both countries. In Sweden they own half of the productive forest land and in Finland 60% (Finnish Statistical Yearbook of Forestry, 2011; Swedish Statistical Yearbook of Forestry, 2011). Furthermore, private ownership is concentrated in the most fertile southern areas of both countries. The state is also a significant owner in Finland, owning 26% of productive forest land. In Sweden the figure is close to 17% (mostly held through a state-owned company). Privately owned companies in Sweden control more forests (25% of productive forest land) compared with Finland (9%), but in both countries the industry is very dependent on the NIPFs owners' provision of roundwood.

The roundwood supply approach to forestry services undoubtedly serves well the forest owners involved in wood production but probably ignores the NIPF owners who have different objectives. Due to urbanization and being better-off economically, many NIPF owners have become less dependent on their forestry incomes, and it is increasingly challenging for service organisations to provide attractive offerings to these forest owners. Service markets targeting NIPF owners seem to fit within the category of mature markets identified by Cooper (2011) that are not growing, which results in firms increasingly competing for a piece of a shrinking pie by introducing one insignificant new product (or service in this case) after another. Within this competitive segment of the forestry service market, innovativeness and the ability to find new ways to reach forest owners have become increasingly important. A broader understanding of the modern forest owner's value creation is needed. It should even be questioned whether the current organisations are capable of developing their service logics from a raw-material orientation towards customer value creation, and whether they are willing to do so. Hence the service logics of these organisations will be discussed in this paper.

Extensive research has been carried out on Scandinavian private forest owners as well as the structural changes in ownership, and trends such as the increasing number of urban owners, larger share of women,

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and ageing among forest owners have been recognized as the drivers of greater heterogeneity (e.g. Boon et al., 2004; Ingemarson et al., 2006; Karppinen, 1998; Ripatti and Järveläinen, 1997). Research into the forestry service market, on the other hand, has focused almost exclusively on specific elements, most often the roundwood sector (e.g. Rämö et al., 2002, Tilli and Skutin 2004, Favada et al., 2009). However, there is also up-to-date evidence of multidimensionality in the needs of NIPF owners (Häyrinen, 2013). Although some research has considered the services more broadly (e.g. Hujala et al., 2013; Rämö and Toivonen, 2007), as well as the organisations (e.g. Lidestav and Arvidsson, 2012; Lönnsted, 2012; Sinkkonen et al., 2008), the service logics of the current service organisations in the market has not been discussed.

Our concept of forestry service encompasses all of the various services including wood trading, forest operations, property administration and management planning, and information services. By using service-dominant logic as a framework, the theoretical objective is to examine the abilities of the current market actors to adapt new kind of customer value creation process. The practical objective is to better understand the challenges that the Finnish and Swedish organisations providing services to NIPF owners are facing when they try to adapt their service offerings to the ongoing changes in customer demand.

2. Background

2.1. Institutional background

The main organisations providing forestry services to the NIPF owners are listed in Table 1. In Finland and Sweden, forest owners have their own organisations that work in their interest. In Finland they take the form of associations; their activities are based on the national policy and they are partly financed by tax-like membership fees. In the Swedish system they are cooperatives that also pay shares of their profits to the forest owner members. Forestry centres and forest agencies in both countries are publicly financed authorities that enforce forestry laws but also offer business-based services. In the two countries the large-scale forest industry companies are significant service providers and their service portfolios are built to support their main activity: efficient wood procurement. The service portfolios of independent sawmills, more dominant in the Swedish market than in Finland, vary from basic wood procurement services to all-inclusive full service packages. As well, forestry enterprises have rather variable service assortments that usually including operational services for forest management or forestry planning services.

The flux in the Finnish market has been triggered by the institutional changes driven by national policies. Forestry law is currently being reformed, and for NIFPs it will allow for more versatile ways to manage their forests. The unique automatic membership and tax-like membership fees of the forest owners' associations are about to be abolished and the forestry centres have already merged. Restructuring the public financing of the organisations will affect the whole forestry services sector, which makes this study topical. Furthermore, as Fig. 1 shows, the market structures in the two countries are very similar, but the Finnish market is facing more concrete changes resulting from the political decisions that have been made. Because the Finnish market is turning partly towards the Swedish market structure, especially when it comes to the functions of the forest owners' own organisations, a cross-country comparison can be particularly helpful in predicting changes in the Finnish market, provided they follow the Swedish developments closely enough.

The provision of forestry services in both countries is dominated by large-scale organisations with long histories, and the main business models have long focused on timber production and the wood trade. According to Hage (1988), old and stable organisations in particular are being challenged by changes in technology and global competition. Cooper (2011) argues that the dilemma with respect to mature organisations is that shareholders and executives want a steady stream of profitable and high-profile new products, while management practices and the external environment are steering companies towards smaller, less risky and less ambitious initiatives. Under these circumstances, the Swedish and Finnish service organisations have likely seen forest owners more as raw material producers than customers buying forestry services.

2.2. Theoretical background

Research into services has become more and more important along with the growing role of services in the developed economies, where the role of service innovations in creating economic growth and wellbeing has been increasingly acknowledged (Coombs and Miles, 2000, van Ark et al. 2003; Gallouj, 2002; OECD, 2005; European Commission, 2009; den Hertog et al., 2010). Interpreted within the context of the sectoral innovation system (Kubeczko et al., 2006), it is crucial to create a system that is capable of generating improvements also in existing services, because it is increasingly difficult to create and maintain sustainable competitive advantages in a highly networked world. In order to have a competitive advantage in this networked world, it is also

Table 1
Comparison of forestry service organisations between Sweden and Finland (Sources: Staland et al., 2002[1]; Rieppo, 2010[2]; Tapion vuositilastot, 2010[3]; Rummukainen et al., 2009[4]).

	Finland	Sweden
Forest owners' organisations	- 103 local associations - automatic membership and membership fee - 70% of NIPF owners pay membership fees[3] - Supervising interests, lobbying - Education and extension - Help to sell wood - Forestry operational services - Planning, evaluation	- 4 regional cooperatives → pay share of profits to owners - 50% of NIPF owners are members - Supervising interests, lobbying - Education and extension - Buy stumpage from members
Forestry centre/forest agency	- Public services unit (financial support, advice, promotion, enforces implementation of the forestry act, forest inventory information) - Business services unit (road building, and maintenance, peatland management, forestry planning, seed and plant production)	- Public authority - Planning, evaluation, education, organizing road building and maintenance, financial support e.g. for environmental services, mapping
Large-scale forest industry	- A few large-scale companies using pulp wood (one of them a cooperative owned by forest owners) - Extensive full service packages supporting wood trade - Buy stumpage	- A few large-scale companies using pulp wood - Extensive full service packages supporting the wood trade - Wood trade
Independent sawmills	- 1500 small sawmills (processing less than 10000 m3 roundwood annually) - 170 major sawmills[2] - Wide variety of services supporting wood trade locally	- 1600 small sawmills (producing less than 1000 m3 sawn wood annually)[1] - 300 major sawmills (producing more than 1000 m3 sawn wood annually)[1] - Wide variety of services supporting wood trade locally