

Importance of the financial situation for the growth of a forest machine entrepreneur

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What do we study and why?

- Large growth-oriented forest machine companies in Finland
- Point of view of growth and profitability
- Sector suffers from low profitability (Mäkinen, 1997; Kärhä, 2004), could growth be the answer?
- Study focused on growth, profitability and financial situation



Why growth is important?

- Forest machine companies are important employers in the rural areas in Finland
- The growth of a company is also relevant to the growth of the national economy, competitiveness and rate of employment
- “Much of the growth of industry comes from the growth of existing establishments, rather than from new ones” (Kumar et al., 2001; Mäkinen et al., 2002).

Forest machine sector in Finland



- The sector is mainly driven by small family owned companies owning 2-4 machines (harvesters and forwarders)
- Approximately 1700 forest machine companies operate in Finland
- The 10 largest companies in the sector have, on average, 22 forest machines
- The sector's turnover is approximately EUR 500 million

Aims?



- Is it profitable to grow in the sector?
- If yes, how?
- What kind of role financial situation play in growth?
- What should be taken into account when considering growth?
- The sector



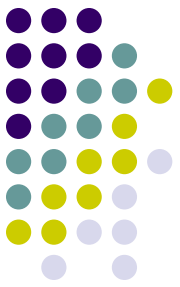
Theory of growth

- A company can grow basically by three different ways:
 - Organically
 - increasing output volume
 - most common, slow
 - Diversifically
 - increasing services offered
 - can raise the value of services, competitive advantage
 - By acquisition or merge
 - buying, selling and combining of different companies
 - risks, capital, demands much time and effort, fast

Entrepreneurship



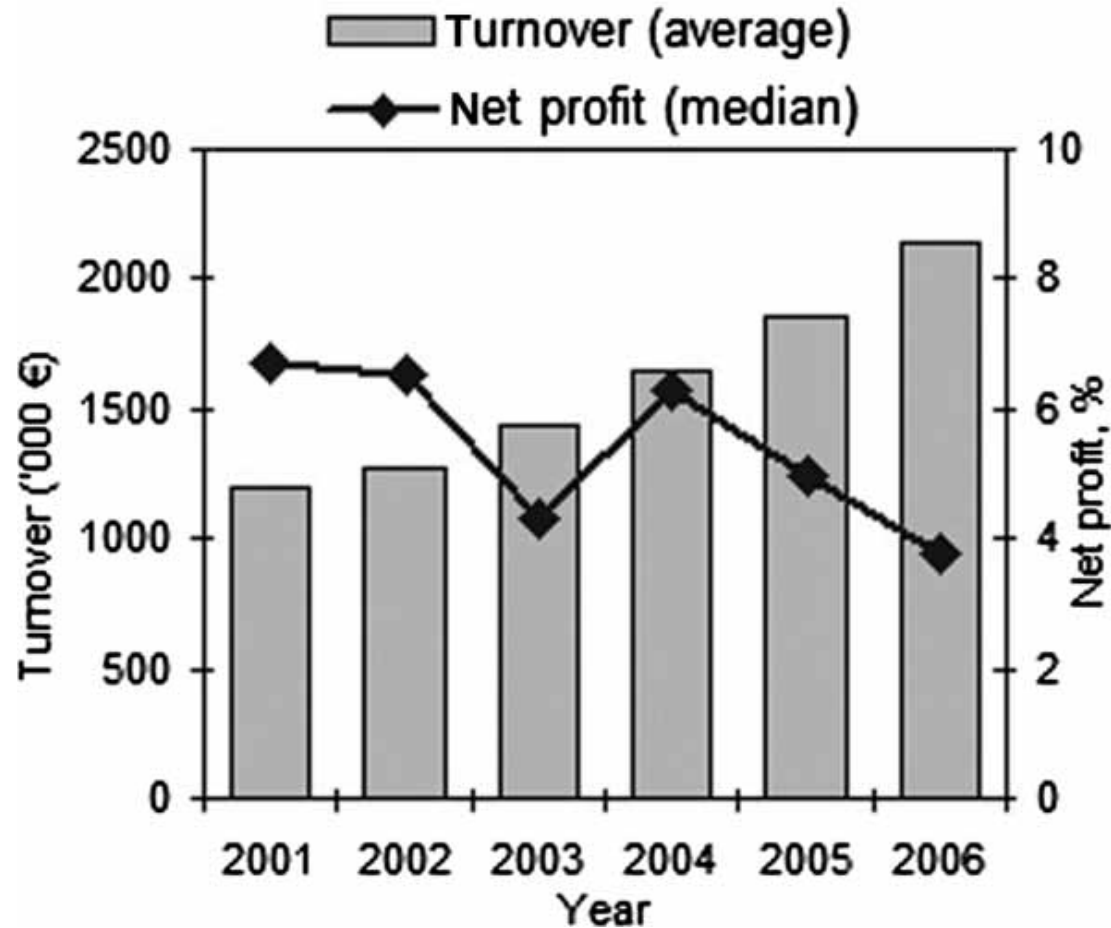
- Definitions of the term entrepreneur have been abundant since Cantillon in 1725
- Schumpeter (1934) believes in "creative destruction"
- Kirzner (1973) focuses on individual action
 - "...entrepreneurship is the discovery of hitherto unexploited opportunities."
 - No need for new information - just differential access to existing information

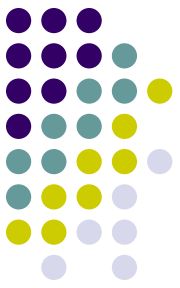


Research sample

- Largest limited companies in the sector which have had a growth in turnover since 2001
- 32 companies
- Financial statements from 2001 to 2006
- The research sample includes a significant part of the sector's large growth-orientated companies in Finland

Research sample





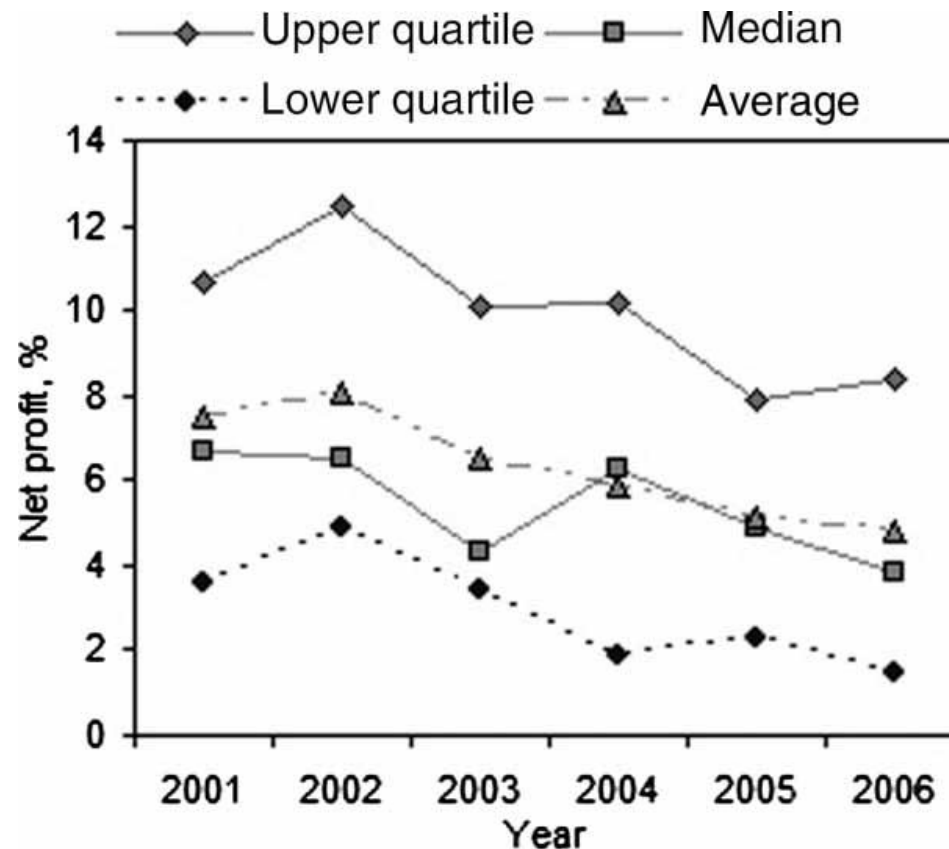
Methods

- The companies were divided into three groups based on net profit and reserve in 2001
 - Profitable and stable (good prerequisites for growth)
 - Mediocre
 - Weak
- It was measured, how companies' financial situation changed during growth
- Financial situation was measured with net profit and reserve



Results

- **Development of net profit ratio**





Results

Companies in financial groups in 2006 (% of change since 2001 in parentheses)

2006 (% change from 2001)	Profitable and Stable (16 companies)	Mediocre (7 companies)	Weak (9 companies)	On average (32 companies)
Turnover ('000 €)	2720 (+85,0)	1602 (+98,0) →	1602 (+60,2)	2142 (+78,6)
Net profit, %	5,9 (-49,1)	5,4 (+20,0) →	-0,1 (-107,7)	4,7 (-34,7)
Equity ratio, % →	56,6 (-6,3)	32,3 (-33,4)	11,4 (-20,3)	39,0 (-12,9)
Internal financing ('000 €)	524,0 (+20,2)	378,0 (+54,9)	269,0 (+25,7)	409,0 (+26,2)
External services ('000 €) →	382 (+1217,2)	181 (+1408,3)	85 (+203,6)	251 (+904,0)
Reserve ('000 €)	125,4 (-18,0)	89,6 (+37,0)	-90,2 (-355,5)	56,9 (-33,2)
Personnel expenses as % of turnover →	28,2 (-16,6)	31,6 (-8,9)	40,2 (+4,7)	31,3 (-10,3)
Depreciations as % of turnover	12,2 (-31,1)	18,2 (-14,6)	16,5 (-8,3)	14,1 (-23,0)
Interests as % of turnover	0,3 (-38,2)	1,2 (-51,9)	2,4 (-25,9)	0,9 (-29,1)

Findings



- Companies with good financial situation grew the most profitable
- They used much outsourcing
- Outsourcing is increasing rapidly in the sector
- Companies with weak prerequisites grew least profitable
- Growth seemed to emphasize the predominant financial situation



Discussion

- The sector offers growth possibilities
- Financial situation ok? - Then growth
- Outsourcing is new in the sector
 - In 2001 only 2% of turnover -> in 2006, 14%!
- The larger companies were more profitable – better market situation?
- Large difference between companies, why?
 - Services, machinery, labour, solvency...



Ideas for follow-up research

- Subcontracting – subcontractor
- Are there differences between the growth methods?
- Are the companies operating in one sector or does they offer wider scale of services
 - Is it profitable to diversity?
- Human factors behind the growth
- Customer – entrepreneur -relationship

Thank you



- Questions



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