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# **Globalization, Financialization, and Shareholder Influence in the Forest Sector:**

A Case Study of Finnish Companies UPM-Kymmene and Stora Enso

School of Marketing  
and Communication

Master's thesis in  
International  
Business

Vaasa 2023

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**VAASAN YLIOPISTO****Markkinoinnin ja viestinnän yksikkö****Tekijä:** Toni Singh**Tutkielman nimi:** Globalisaatio, finansialisaatio ja osakkeenomistajien vaikutusvalta metsäsektorilla: Tapaustutkimus UPM-Kymmene ja Stora Enso**Tutkinto:** Kauppatieteiden maisteri**Oppiaine:** Kansainvälinen liiketoiminta**Työn ohjaaja:** Arto Ojala**Vuosi:** 2023**Sivumäärä:** 80

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**TIIVISTELMÄ:**

Tässä pro gradu -työssä tarkastellaan metsäsektorin globalisaation ja finansialisaation kietoutumista toisiinsa keskittyen kahden merkittävän suomalaisen metsäyhtiön, UPM-Kymmene (UPM) ja Stora Enson omistajarakenteisiin. Puupohjaisten tuotteiden globaalin kysynnän kasvaessa tutkimuksessa selvitetään, miten omistusrakenteet ovat muuttuneet vasteena näihin globaaleihin prosesseihin, ja motiiveja, jotka houkuttelevat sijoittajia metsäsektorille. Tämä tutkimus pyrkii ymmärtämään tekijöitä, jotka muokkaavat yritysten strategista päätöksentekoa, ja samalla tarkastelee myös mahdollisia vaikutuksia yritysten yhteiskuntavastuuseen (CSR).

Tutkimuksen tulokset ovat ajankohtaisia, sillä luonnonvaroista riippuvaisia sektoreita vaaditaan yhä enemmän osoittamaan vahvaa sitoutumista yritysten yhteiskuntavastuuseen, etenkin kun ympäristötietoisuus on kasvussa. Merkittävästä metsäteollisuudesta ja korkeisiin kestäväan kehityksen standardeihin sitoutumisesta tunnettu Suomi on kiinnostava tutkimuskohde. Tämän tutkimuksen tavoitteena on parantaa ymmärrystä globaalien metsäyhtiöiden rakenteista ja motiiveista sekä globalisaation ja finansialisaation vaikutuksista metsäsektoriin, lisäten sektorin läpinäkyvyyttä.

Tutkimuksen tulosten mukaan globalisaation ja finansialisaation vaikutukset vaihtelevat kahden tapausyrityksen välillä. Osaksi valtion omistamaan Stora Ensoon finansialisaatio vaikuttaa vähemmän kuin UPM:ään, jonka ulkomainen omistus on lisääntynyt huomattavasti kotimaisen institutionaalisen omistuksen kustannuksella. Nämä havainnot korostavat metsäteollisuuden muuttuvaa dynamiikkaa globalisaation ja finansialisaation vetämänä ja näiden prosessien vaikutusta yritysten strategiaan päätöksiin ja omistusrakenteisiin.

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**AVAINSANAT:** Metsäsektori, Osakkeenomistajat, Finansialisaatio, ESG, UPM, Stora Enso

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**Title of the Thesis:** Globalization, Financialization, and Shareholder Influence in the Forest Sector: A Case Study of Finnish Companies UPM-Kymmene and Stora Enso  
**Degree:** Master of Science in Economics and Business Administration  
**Programme:** Master's Degree Programme in International Business  
**Supervisor:** Arto Ojala  
**Year:** 2023  
**Numbers of pages:** 80

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**ABSTRACT:**

This master's thesis investigates the interlinked processes of globalization and financialization in the forest sector, focusing on the shareholder composition of two prominent Finnish-based forest companies, UPM-Kymmene (UPM) and Stora Enso. As global demand for forest-based products continues to rise, the study explores how ownership structures have changed in response to these global processes, and the many motivations driving investors in this sector. This research seeks to shed light on the factors that shape corporate decision-making, while also addressing the potential impact on corporate social responsibility (CSR).

The study's insights are particularly relevant as sectors dependent on natural resources are increasingly called upon to demonstrate a strong commitment to CSR, especially in the face of growing environmental awareness. Finland, known for its significant forest industry and reputation for commitment to high sustainability standards, serves as a compelling case study. This research aims to enhance understanding of the structures and motivations within global forest companies, as well as the effects of globalization and financialization on the industry, ultimately contributing to greater transparency and accountability.

The study reveals that the effects of globalization and financialization differ between the two case companies. Stora Enso, partly government-owned, is less impacted by financialization compared to UPM, which has experienced a notable increase in foreign ownership at the expense of domestic institutional ownership. These findings emphasize the evolving dynamics within the forest industry, driven by globalization and financialization, and their influence on shareholder strategies and company ownership structures.

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**KEYWORDS:** Forest Sector, Shareholders, Financialization, ESG, UPM, Stora Enso

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# 1 Introduction

## 1.1 Background of the study and research gap

The phenomenon of globalization in the forest sector has emerged as a significant and intricate development in the past few decades (FAO, 2020). The demand for forest-based products has increased globally, increasing international trade in the forest sector, but also putting pressure on sustainable management of forest resources (Laaksonen-Craig, 2004). In this study, the forest sector is defined as the portion of the economy and industry that is associated with the management, harvesting, processing, and utilization of forests and forest resources. It includes a range of activities related to forests, including forest management, logging and timber production, wood processing, paper and pulp industry, forest based biomasses and energy, and conservation (Finnish Ministry of Agriculture and Forestry, 2014; Forest Europe, 2020).

With the growing involvement of nations in international trade and investment, the forest sector has emerged as a pivotal participant in the global economy (Tacconi, 2012). The exploitation, trade, and distribution of forest resources have substantial implications for both environmental sustainability and economic development (Tacconi, 2012). In the globalized world, production tends to move to so-called production peripheries – countries in the Global South, where resources can be obtained at a cheaper price – while high value added components of the commodity production chain remain in the Global North (Kröger 2013; Baines & Hager 2021).

Scholars (Vihervaara & Kamppinen, 2009; Gerber, 2010; Kröger, 2012) have raised concerns over how natural resources are managed, who has the right to invest in land, and who actually benefits from global land-based investments. Understanding where that money comes, and who influences decision making regarding projects that depend on natural resources, can lead to improved corporate social responsibility and long term sustainability (Kröger, 2012).

Even with publicly traded companies, identifying all of a company's shareholders can be difficult, and many will remain hidden. The purpose of this research is to understand how ownership structures have changed in the forest sector over the past few decades, which have been characterized by the processes of globalization and financialization. Financialization is a process where financial markets and institutions increase their importance in the operation of the economy nationally and internationally (Epstein, 2006; Gunnoe, 2015).

It also aims to identify strong pressure points for advocacy, namely shareholders, who have the significant influence over the company. The study draws conclusions on what type of investors have decision making power in strategic choices of companies that rely on the use of natural resources. Thus, this research will contribute in bringing clarity and transparency in the structures of global forest companies, effects of globalization and financialization, and in the shareholders' motivations to invest. Studying the motivations of shareholders is crucial because shareholders' interest plays an important role in firm governance by exerting influence on executive decisions (Garcia et al., 2022).

Studies (e.g. Brown et al., 2006) suggest that growing influence of shareholders can negatively affect corporate social responsibility (CSR). However, sectors that rely on natural resources need high commitment to CSR, as the public awareness of the environmental crisis increases. This study focuses on two Finnish forestry companies that operate globally. Finland, although a relatively small country, is an interesting case study because of its globally significant forest industry (Kröger, 2013), which predicts greater influence in the global forest sector (Toivanen, 2021), and may have an impact on the sustainability standards around the world. Finland has a strong reputation as a leader in environmental policy and sustainable development (OECD, 2021). Moreover, the Finnish forest industry has been a forerunner of the modern forest industry (Vihervaara & Kamppinen, 2009) making it a fruitful case study and an example for other industries as well.



## 1.2 Purpose of the study and research questions

The objective of the study is to provide an overview of the shareholder composition of global forest companies, identify changes over time, and analyze what motivates investors to invest in the forest sector, by using two Finnish-based forest companies UPM-Kymmene (hereafter referred to as UPM) and Stora Enso as case study. Clarifying the objectives of a research is necessary in order to comprehend the purpose of this research project and answer the research questions set out. Importantly, the research objectives will support and facilitate comprehension of the research question.

The study is conducted as a case study on the shareholder composition of the two case companies, analyzing the effect of financialization (Epstein, 2006) in the global forest sector, and by looking at the change in ownership structure from the 1990's, when the case companies began their expansion to global markets until today. This study is a case study, which can be explained as "A strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence." (Robson 2002, 178). The case study enables the possibility to answer the questions 'why?' 'what' and 'how?'.

The research objective is operationalized through three research questions:

1. How has globalization influenced the shareholder composition of the forest sector in the last 30 years?
2. How do shareholders influence the strategies of case companies?
3. What motivates shareholders to invest in the forest sector?

To answer these questions, the research first identifies shareholders of the two case companies, and the sector they operate by utilizing open source data such as the companies' annual reports. Then the study analyzes the change, or stagnancy, in the shareholder composition during the last three decades, when increasing financialization took place in the forest sector as discussed in the later chapters. Second, the research identifies shareholders that hold significant influence over the company by determining

the major shareholders and investigates how the shareholders have influenced, or not, the company strategies. Finally, the research identifies factors that motivate shareholders to invest in the forest sector through shareholders' statements where they clarify their investment decisions, and with expert interviews to gain investor insights.

The first hypothesis of this study is that the ownership of global forest companies is increasingly concentrated among institutional investors. It further suggests that these companies are focusing on shareholder value maximization, following the principles of financialization theory (Epstein, 2006) and shareholder theory (O'Connell & Ward, 2020). The second hypothesis is that investors are primarily driven by the pursuit of portfolio diversification and the exploration of new markets in both short and long-term (Chudy & Cubbage, 2020). Additionally, it suggests that long-term engagement is influenced by the perceived transparency and responsible conduct of Finnish companies.

### **1.3 Research gap**

Most studies on financialization of the forest sector have been conducted in the North American context. A recent study from S kyrman (2022) studied financialization with emphasis on crisis-tendencies in the North European forest industry and its implications for labor, suppliers and corporate R&D. Although the study by S kyrman (2022) overlaps in some aspects with this study, the focus on this work is on the changes in shareholder composition and its implications to long-term sustainability in the forest sector. S kyrman (2022) found that R&D has been downsized while dividends have been increased to shareholders. This study picks up from S kyrman, and investigates how shareholders impact the companies' strategic decisions, how financialization has shaped shareholder composition, and what motivates new financial actors to engage in the sector.

### **1.4 Structure of the study**

This study proceeds in the following manner: Following the introduction, the second chapter covers relevant literature to the research topic. The third chapter introduces the theoretical framework chosen for this study, and the fourth chapter explains research

data and methods. The fifth chapter presents the empirical findings of this study, and the final chapters discusses these findings and draws conclusions.

## **2 Literature review**

This chapter critically reviews and evaluates the relevant literature supporting the objective of this study. This chapter first reviews literature on the globalization and financialization process of the forest sector, with the geographical focus on Finland. The chapter also reviews literature about the influence of shareholders on corporate strategy, decision-making and on CSR in the forest sector. Finally, the chapter discusses many factors that motivate investors to make investment decisions.

This chapter is based on the assumption that globalization and financialization are interconnected processes that have influenced and reinforced each other in various ways (see also Milberg et al., 2008; Baud & Durand 2011). While globalization has facilitated the spread of financialization, financialization has also influenced the dynamics of global finance and international trade (van den Zwar, 2014).

### **2.1 Globalization of Finnish forest sector:**

Finland's relationship with its forests is deeply rooted in its history. For centuries, forests have been a source of livelihood, providing timber, paper, and various other forest products (Laakkonen et al., 2022). However, it was only in the mid-1990's that Finnish forestry companies globalized (Lehtinen, 2002). Global demand for forest products, especially paper and pulp, drove companies to seek international markets. Finnish forestry companies leveraged their expertise to meet this demand and started expanding in the Global South, building pulp mills and establishing tree plantations for raw material in Indonesia, Brazil, and Uruguay (Kröger, 2013).

In the mid-1990's, the Finnish forestry companies, UPM and Stora Enso adopted "shareholder ideology", that had previously not been common in Europe. For the first time, the companies experienced pressure to improve their financial attractiveness and short-term profitability to meet shareholder expectations (Lehtinen, 2002). The Finnish government played a vital role in supporting the internationalization of forestry

companies through policies that promoted export-oriented strategies. Economic globalization and competitive trade put forward structural change in the forest sector, benefitting capital-intensive, large, globally connected companies over labor-intensive, smaller ones (Chudy & Cabbage, 2020). At the same time, trade liberalization and low tariffs on forest products raised concerns over the sustainability of forestry practices (Laaksonen-Craig, 2004).

The rise of environmental awareness has changed the operational environment of forestry companies and facilitated a transition to a sustainable economy and a move toward a circular bioeconomy, where fossil-based resources are replaced with bio-based resources that are sourced sustainably (Laakkonen et al., 2022). After a global decrease in paper consumption, the pulp and paper industry has reemerged as a relevant sector that can offer wood-based alternatives for fossil-based products (Hurmekoski et al., 2018). Since UPM and Stora Enso are among the top 10 largest pulp and paper companies worldwide (Newton Consulting Partners, 2022), Finnish companies play a significant role in the global forest sector.

The globalization of the forest sector raises a lot of contentious issues. Already in the early 2000's, discussions on the legitimacy and justice aspects of pulp manufacturing took place (Lehtinen, 2002) and scholars and the civil society have condemned the unequal and unfair exploitation of natural resources (Kröger, 2013). Global pulp production involves large plantation forests that are harvested for raw material. Furthermore, the global forest companies have been criticized for bringing the most polluting industrial practices, namely tree plantations and pulp mills, to the Global South, resulting in issues with land tenure and environmental degradation (Overbeek et al., 2012; Kröger & Nylund, 2012). Moreover, the benefits of activities of the global forest companies often flow back to the global North (Baines & Hager, 2021).

This study recognizes the interlinkedness of globalization and financialization, and argues that the financialization of the case companies began at the same time with their entry to global markets. The next chapter defines financialization and discusses the

various aspects of financialization in the forest sector, including causes and consequences.

## **2.2 Financialization of forest sector and the rise of shareholder value maximization**

In recent years, the forest sector has experienced a significant transformation with the rise of financialization (Gunnøe, 2015). This process was driven by a variety of factors, including deregulation, advances in technology, and changes in corporate strategies (Skyrman, 2022) and was supported by powerful entities such as the EU, the IMF, the World Bank, the WTO, and the UNFCCC (Brand & Wissen 2014). Epstein (2006) defines financialization as: “the increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operation of the economy and its governing institutions, both at the national and international level.” According to Gunnøe (2015) Epstein’s definition does not take into consideration the capital accumulation process. Therefore, Gunnøe (2015, 1077) defines financialization as “a form of accumulation in which profits increasingly accrue through financial, rather than productive, activities.”

In this study, financialization is understood as shareholder value ideology, following Skyrman (2022) and Gunnøe (2015) who both argue that the adaptation of shareholder value norms laid the foundation for financialization of traditionally non-financial sectors, such as the forest sector. Further, Gunnøe emphasizes the shift in focus from long-term sustainability and community well-being to the maximization of shareholder value. Some scholars (Knafo & Dutta, 2020) remain skeptical towards this approach, arguing that the prevailing literature on financialization tries to expose a structural bias that has led to an overemphasis on shareholders while downplaying the pivotal role of corporate managers in the financialization of corporate governance. In fact, Knafo and Dutta (2020) argue that it is the financialized managers that shape shareholder interests to suit their own objectives, and not vice versa.

One of the most noticeable aspects of financialization in the forest sector is the increasing commodification of forests. Rather than viewed as ecosystems with ecological, social, and economic values, forested land has become a financial asset (Sullivan, 2012). Treating forested areas as an asset can encourage investors to engage in short-term profit maximization, which in the forest sector can lead to unsustainable practices (Baines & Hager 2021; Gunnoe 2015). Due to financialization, publicly traded forest companies are under an increasing pressure to maximize shareholder value, which according to scholars risk long-term sustainability and responsible environmental practices (Brand & Wissen 2014; Baines & Hager 2021). Institutional investors often operate with less transparency than traditional forest companies, which makes it more difficult to hold them accountable for unsustainable practices. Moreover, a study from Laaksonen-Craig (2004) found that foreign ownership can negatively impact sustainable forestry.

This chapter highlighted how financialization and the prioritization of shareholder value maximization can lead to short-term focus at the expense of economic and environmental sustainability in the forest sector (Brand & Wissen 2014; Gunnoe 2015) and established a link between financialization and shareholder value maximization. The next chapter will summarize literature on shareholders' motivations to invest in the forest sector.

### **2.3 Shareholder motivations towards investment in the forest sector**

Investment in the global forest sector has increased tenfold since the early 2000s (Löf et al., 2023). Studying the motives for why investors choose to invest in the forest sector is important as it may provide information on the sector's long-term sustainability. This significance is underscored by the subsequent analysis in this study, which illustrates the extent of shareholders' influence on corporate strategic decisions. The factors that motivate investors to invest in the forest sector are briefly discussed in this chapter.

There are various reasons why forests have become an investment class, these include, according to Chudy and Cubbage (2020, 118), analytical advances, ownership changes, globalized markets, and sustainable forestry factors. The authors (2020, 119) further explain that forest investment can cover planting, regeneration, management, and harvests of forests, timberland, or woodland, exploitation, and conversion of forests to other land uses. This study focuses investors' motivation to invest in publicly traded timber-related companies (i.e. forest products companies), rather than direct investments in forested land.

According to earlier literature, motivations for investing in forest companies are, for example

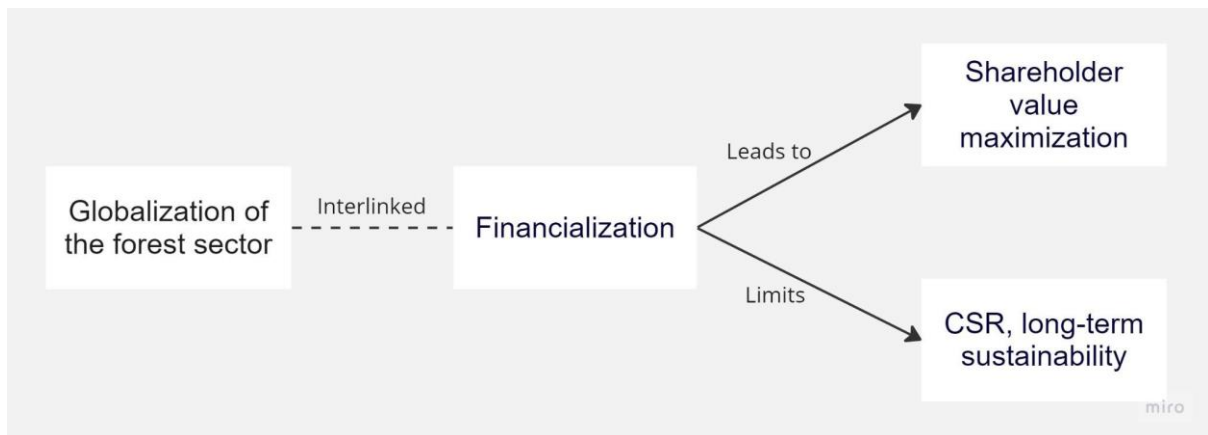
- Portfolio diversification (Mei, 2019; Chudy and Cubbage, 2020)
- Hedge against inflation (Chudy and Cubbage, 2020)
- Liquidity and natural risks considerations (Chudy and Cubbage, 2020)
- New market seeking (Uusivuori and Laaksonen-Craig, 2001)
- Risk management and mitigation (Korhonen et al. 2016; Mei, 2019)
- Environmental and sustainability considerations (Thompson and Hansen, 2012; O'Connell and Ward, 2020)
- Long-term investment horizon (Mei, 2019)

This literature review gave an overview on the interlinked processes of globalization and financialization with the emphasis on the developments in the Finnish forest sector. A thorough examination of the literature on maximizing shareholder value was conducted, and a summary of the many reasons why investors choose to invest in the forest sector was provided. The theoretical framework for the study, which connects the many literatures and the theoretical approach of this study, is presented in the following chapter.



### 3 Theoretical framework

This chapter describes the theoretical underpinnings of the study and explains the existing theories in support of this research. Drawing from the literature review, the framework of this study is shareholder theory. The selection of this framework is well justified as this study argues that the pressure for shareholder value maximization, and with that, shareholder influence, has increased in global forest companies, due to financialization of the forest sector. As demonstrated in the literature review, financialization and shareholder theory are closely interlinked, since the origin of shareholder value maximization as the primary objective of public companies was influenced by financialization. Within shareholder theory, this chapter discusses the arguments of agency perspective, understood as the directors' obligation to maximize shareholder value over other objectives, and control argument, understood as the shareholders influence over the governing board (O'Connell and Ward, 2020). This chapter also discusses the counter argument for shareholder theory, the stakeholder theory and connection of shareholder value maximization to Corporate Social Responsibility (CSR).



**Figure 1:** The framework of this study. Globalization and financialization are seen in this study as interlinked processes that have led to shareholder value maximization and can limit CSR commitment and long-term sustainability in the forest sector. Source: The author's own illustration based on the reviewed literature.

### 3.1 Shareholder theory

Corporate strategy is directly linked to economic value that is created for shareholders. Rapport (1986) stated: "The ultimate test of corporate strategy, the only reliable measure, is whether it creates economic value for shareholders." Therefore it is in the interests of shareholders to influence corporate strategy. Shareholders, alternatively referred to as stockholders or equity holders, involve individuals, entities, or institutional investors who have ownership of shares or equity within a corporation (Brigham and Ehrhardt, 2017, 30).

Shareholder theory argues that the primary objective of a company is to maximize shareholder value. O'Connell and Ward (2020) state: "This objective ranks in front of the interests of other corporate stakeholders, such as employees, suppliers, customers and society." According to shareholder theory, maximizing shareholder value is justified by the idea that since shareholders own the company's assets, managers and boards should make decisions that will best serve them, typically in the form of dividends and increased share price (O'Connell & Ward, 2020).

Examples of actions that may increase share prices temporarily but harm long-term profitability include cutting back on marketing and R&D spending and handing out high dividends to shareholders rather than reinvesting profits in the business. Hedge funds and institutional investors, which are known as activist investors, are recognized for pressuring boards to adopt these kinds of methods (Stout, 2013; Gunnoe, 2015).

The concept of maximizing shareholder value is often supported by utilitarian reasoning, which is widely employed in various economic and social science theories (Jones & Felps, 2013). Utilitarianism involves making moral judgments and choices. Therefore, justifying shareholder value maximization as the corporate objective is based on the idea that it generates maximum wealth and well-being for society as a whole, extending beyond the interests of shareholders alone. Economists affirm this perspective, asserting that pursuing shareholder value maximization as a corporate objective is deemed acceptable

and accurate since it ultimately expands the overall benefits available to all stakeholders (e.g. Sundaram & Inkpen, 2004).

This has however been criticized over time, by scholars such as Porter (1992), Clarke (2015), and Pargendler (2016). For example, Pargendler (2016) found that the wealthiest 10% of the population own 81% of shares, and share ownership is largely concentrated to wealthy, white men. Hence, the interests of share owners and those of broader society do not often overlap.

The agency perspective, which was presented in the academic literature already in the 1970s (Jensen & Meckling, 1976), holds that shareholders are a company's external owners without management authority. As a result, shareholders participate in the selection of the managing board, whose obligation it is to protect shareholders' interests and generate value. Therefore, the management is expected to make strategic decisions that maximize dividend returns and increase the share price (O'Connell and Ward, 2020). However, according to O'Connell and Ward (2020) and Stout (2013), human interactions in the real world are motivated by shared beliefs, social relationships, values, and more than just financial considerations, contradicting the agency perspective's oversimplification of the complexity of corporate reality.

According to the control argument, shareholders are the most significant stakeholders since they have power over their company (O'Connell & Ward, 2020). Due to the voting rights associated with each share, shareholders have the ability to influence the board. Shareholders have the power to vote for or against individual directors at annual general meetings, influencing the board structure. As a result, even though official decision-making power is given to the board, shareholders retain ultimate control. The control argument therefore suggests that managers have a duty to maximize shareholder value (O'Connell & Ward, 2020).

Shareholder theory is widely accepted and is frequently used in professional settings, but it has also received criticism over the years especially for its limited focus on non-financial metrics. Stout (2013) argues in her book that the rising focus on shareholder

value maximization has been directly linked to the decline in investor returns, companies' life expectancy, and the number of public companies in the USA. Mansell (2013) states that a company cannot operate ethically if its sole aim is to maximize shareholder value. The critique that highlights the many shortcomings of the shareholder theory have led to the development of alternative theories of corporate management, such as stakeholder theory and CSR, which considers the interests of all stakeholders and a broader view of corporate purpose beyond shareholder value maximization (Pargendler 2016; Stout 2013).

### **3.2 Corporate Social Responsibility (CSR) and ESG**

In recent years, CSR has garnered increasing attention both from scholars and businesses. Researchers such as Goedeke and Fogliasso (2020) have observed that millennials exhibit higher sustainability expectations compared to previous generations. This places unprecedented pressure on companies to adopt more sustainable practices and actively participate in CSR initiatives. CSR is commonly used to refer to the ethical conduct exhibited towards different stakeholder groups, including shareholders, employees, consumers, suppliers, and competitors (Williams et al., 2007). The "social" in CSR is criticized to be too vague, and instead a new term, "Corporate Stakeholder Responsibility" was proposed by Freeman et al. (2010), in an effort to gain a more precise understanding of who exactly a firm is responsible for.

As capitalism and the pursuit of shareholder value maximization continue to foster increasing prosperity through corporate structures characterized by agency-based management and ownership, there is also a growing understanding about the sustainability of continuous economic growth and its impact on the planet (Clarke et al., 2018). Conflicts between shareholders and other stakeholders often arise because of agency problems; O'Connell and Ward (2020) argue that issues between shareholders and stakeholders stem from company boards that prioritize short-term profits, potentially jeopardizing the long-term sustainability of the company.

This approach benefits short-term speculative shareholders seeking quick gains but doesn't align with the interests of long-term shareholders. Consequently, legislative and regulatory structures and initiatives have been put in place to ensure that directing boards respond to stakeholder demands. CSR, and other initiatives aim to steer companies to acknowledge broader social and environmental responsibilities and discourage a sole focus on short-term financial shareholder value maximization (O'Connell & Ward, 2020).

Cohen et al. (2010) reviewed literature on CSR in the forest sector and found that companies in different regions emphasize different CSR approaches. Overall, social issues included investment in communities, improvement of the industry's public image and promotion of sustainable use of wood products. Environmental issues dealt with sustainable forest management practices, improving eco-efficiency and increasing the proportion of renewable material use, among others.

The European forest companies emphasize in their CSR initiatives on environmental issues, such as climate change, biodiversity loss and deforestation over social initiatives. The forest sector is increasingly paying attention to CSR due to demands from consumers, media, and NGOs: "Consciousness of environmental and social issues have intensified pressures on forest industry companies in their efforts to effectively balance potentially conflicting stakeholder demands, and to rethink their business strategies." (Li & Toppinen, 2011, 114). However, a study from Li and Toppinen (2011) found that forest sector companies adapted CSR initiatives mainly with the profit maximization assumption.

Environmental, Social, and Governance (ESG) is a framework used by businesses, investors, and policymakers to assess a company's impact and performance in areas beyond just financial profitability. It is a way of measuring a company's commitment to sustainability, ethical practices, and responsible governance. However, the motivation for adopting ESG framework is usually the improvement of the company's financial performance: "ESG considers environmental and social outcomes insofar as they improve financial outcomes." (Cohen et al., 2013, 361)

The relationship between ESG performance and financial outcomes have resulted in mixed results, some suggesting there is a positive correlation between strong ESG performance and financial performance in the long-term (reviewed in Cohen et al., 2013). ESG encourages a longer-term perspective, which may not align with the short-term profit maximization focus of some businesses.

### **3.3 Stakeholder theory**

According to Freeman (1984) stakeholder theory examines the relationship between stakeholders and CSR, and has gained significant attention in both the academic and business communities. The holistic perspective of stakeholder theory underscores the significance of taking into account the interests of all stakeholders, including shareholders, in the process of making business decisions. It acknowledges that shareholders constitute merely one among several stakeholder groups with vested interests in a company's operations.

Extending this perspective, Freeman's stakeholder theory acknowledges that organizations possess obligations that extend beyond mere financial performance, and pays attention to the social, environmental, and ethical aspects of corporate conduct. The concept of long-term value creation is rooted in stakeholder theory, which posits that companies can achieve enduring success and generate sustainable value by proficiently managing their relationships with various stakeholders. Stakeholder theory can be utilized to examine the manner in which CSR practices and open communication with shareholders contribute to the establishment of trust, the enhancement of reputation, and the improvement of long-term financial performance

In his work, Freeman also acknowledges the complexity inherent in stakeholder theory. He discusses the idea of interest alignment but also recognizes that there may not always be perfect alignment between the interests of various stakeholders, such as shareholders. Freeman's approach promotes the comprehension and effective resolution of the trade-offs and conflicts that emerge among various stakeholders.

This chapter discussed three major theories related to corporate management and responsibility: Shareholder theory, Corporate Social Responsibility (CSR), and Stakeholder theory. In summary, Shareholder theory prioritizes shareholder value maximization, while CSR and Stakeholder theory consider a broader range of stakeholders and encourage companies to adopt ethical, and sustainable practices. These theories reflect ongoing debates about the role of businesses in society and their responsibilities to various stakeholders. In the next chapters, the shareholder theory is applied as a lens to examine the impacts of financialization in the case companies.

## 4 Research data and methods

### 4.1 Methodological approaches

The selection of research methodologies encompasses the specific techniques used to collect data for the study. Broadly, research techniques can be categorized into two main types: qualitative and quantitative. The decision to use one over the other hinges on the nature of the data being investigated. While the quantitative approach emphasizes numerical measurements and statistical analysis to interpret facts (Barnham, 2015), the qualitative method delves into understanding individual perspectives, actions, experiences, and societal settings without resorting to numerical quantification (Fossey et al., 2002). This chapter describes the methodological approaches for data collection and analysis, and the types of data that the study uses. The types of data, and selected methods for data collection and analysis are presented in Table 1.

**Table 1.** Summary of methods for data collection and analysis.

| <b>Data</b>   | <b>Method for data collection</b>           | <b>Method for data analysis</b>                            |
|---|---|--|
| Qualitative primary data: Exper interviews  | Semi-structured interviews (Saunders, 2007) | Thematic analysis with deductive approach (Saunders, 2007) |
| Quantitative and qualitative secondary data: Annual reports, reports, websites of companies | Open source research (Steele, 2007)         | Content analysis, descriptive analysis (Adams et al. 2007) |

According to Saunders et al. (2007, pp. 246-262) data can be divided into primary and secondary data. Secondary data is data that earlier studies have collected in the past and primary data is completely new. One notable benefit of primary data in comparison to secondary data lies in its ability to align precisely with the research objectives and effectively address the research question at hand. To conduct this study, a combination of primary and secondary data collection methods is employed.



This study is a case study that uses two different companies. According to Yin (2003) case study's robustness can be evaluated through four distinct lenses: internal validity, construct validity, external validity, and the reliability of the findings. This research adheres to these criteria to ensure its credibility and dependability. The first criterion, the authenticity of the constructs, pertains to the accurate operationalization of the concepts under investigation. In this research, this authenticity is upheld by drawing on a rich array of sources, including scholarly literature, open-source data, and interview data. The second criteria, the consistency of the internal validity, focuses on establishing cause-and-effect linkages, typically relevant in exploratory research. Within the scope of this study, there's a discernible causal link between globalization and the shareholder composition of the forest sector.

The third criteria is external validity, which pertains to the broader applicability of the research findings. In this context, the findings can be extrapolated given that the both case companies are of global importance in their field and each other's competitors. Finally, the concept of reliability emphasizes the consistency of research outcomes, irrespective of the researcher's influence.

## **4.2 Primary data collection and analysis**

The primary data for this study is collected through expert interviews. Interviews can be divided into three main types: structured, semi-structured, and unstructured interviews. For this study, semi-structured interviews were chosen as the most suitable format for the case study. According to Saunders et al. (2007, p. 312), the term "non-standardized interview" is an approach where the researcher has a predetermined set of questions but allows slight variations in the questioning process based on the respondent's characteristics. This means that the interview questions may adapt based on the conversation's progression. While the main framework remains consistent for all respondents, there may be variations in the inclusion of additional questions or answers. The flexibility that semi-structured interviews allows, was the main reason to select this

interview type. Furthermore, the purpose of these interviews is to compliment the data collected online. Therefore, a strictly structured interview format is less suitable for achieving this objective.

The interviews for this case study are done by the writer to ensure that all questions are posed in the same manner and that all respondents interpret the questions similarly. The interview questions are based on the research question and objectives of the study, and they are formulated with care to avoid misunderstandings. The purpose of the interviews is to gain understanding on shareholders' motivations and on the impact the shareholders have on the company's ability to perform in a sustainable manner.

Potential interviewees were initially contacted via email, with two agreeing to participate. All interviews were conducted over the phone, a choice which is common in the semi-structured interviews. This format allowed interviewees the flexibility to provide more nuanced responses, and enabled the interviewer to ask additional in-depth questions based on these responses.

Both interviewees have a university degree in finance and they are working in major finance corporations as a senior analyst and as finance specialist. They intertwine with finance and ESG considerations continually in day to day work. Both are also active investors, which further deepens their understanding of shareholder perspective in the forest sector. The interviews were recorded and transcribed, in order to help examination of the data.

A thematic analysis of the interview data was done by using a deductive approach. Thematic analysis is a suitable tool when the goal is to understand people's views based on a set of qualitative data. Saunders et al. (2007) describe deductive approach as developing theory and hypothesis (or hypotheses) and design a research strategy to test the hypothesis. In the qualitative analysis of the interviews, this study employs a deductive approach with pre-defined themes to ensure that it is aligned with the research objectives. These thematic themes (Table 2); Motivation, Economic Factors, Sustainability and Environmental Factors, Risks and Challenges, and Future Outlook

were selected based on the theoretical framework described earlier. This approach ensured that the data collected was relevant and supports the secondary data. Results of the interviews can not be generalized from the viewpoint of all shareholders but some degree of generalization can be done, when interview data, academic literature and shareholders' annual reports are examined together.

**Table 2.** The protocol for expert interviews

| Topic                                    | Questions   |
|--|---|
| Motivation                               | 1. In your experience, what are the primary motivations for shareholders to invest in the forest sector?  |
|  | 2. Do these motivations differ between different stakeholder groups and if they do, how?  |
|  | 3. How do shareholders influence strategic decisions in the forest sector?  |
| Economic factors                         | 4. Would you recommend forest sector for investors looking for high financial returns and if not, why?  |
|  | 5. Are there specific economic trends or indicators that make the forest sector particularly attractive to investors?                                     |
|  | 6. How would you describe role of financialization in the forest sector?  |
| Sustainability and environmental factors | 7. How significant is the role of sustainability and environmental considerations in shareholders' decision-making towards investing in forest companies? |
|  | 8. Do you see that following ESG metrics is in conflict with the pursuit of profit maximization?  |
| Risks and challenges                     | 9. What are the perceived risks associated with investing in the forest sector, and how do they impact investment decisions?                              |
|  | 10. How would you describe risk/reward ratio for shareholders of UPM and Stora Enso?  |
| Future outlook                           | 11. Based on the current trends and your expertise, how do you foresee the shareholder composition in the forest sector evolving in the coming years?     |
|  | 12. Are there emerging factors or considerations that you believe will influence shareholders' investment decisions in the near future?                   |

### 4.3 Secondary data collection and analysis

Open source research, or open source intelligence, involves gathering information from publicly available sources, such as online databases, news articles, publicly available data sets, and government reports (Steele, 2007). The information can be collected and analyzed to gain insights into various phenomena and trends. Challenges associated with open source research include the need to verify the reliability of information, the

potential for misinformation, and the ethical dilemmas related to accessing and using publicly available data (Hulnick, 2002). Hence, it is important to triangulate the data, i.e. compare different sources to establish reliability and validity (Steele, 2007). Open source research has been used mostly for intelligence by governments and the private sector (such as Hulnick, 2002; Steele, 2007) and for human rights investigations (e.g. Murray et al., 2022). This study however argues that open source research is applicable as a method to any type of academic research that utilizes open source data.

The main focus of this thesis centers around the use of secondary, open source data. According to Saunders et al. (2007:246-262), utilizing secondary data offers both advantages and disadvantages. First off, it requires fewer resources, as the data has already been collected by another party. Additionally, conducting a comparative analysis between one's own research findings and existing data within the same contextual framework proves beneficial. Moreover, reexamining secondary data has the potential to uncover novel insights and provide fresh perspectives. The secondary data is both qualitative (e.g. motivations of shareholders) and quantitative (e.g. percentual changes in share ownership) and it is analyzed with content analysis and descriptive analysis (Adams et al., 2007) to understand themes and trends within the data.

This research utilizes public information provided by UPM and Stora Enso to understand shareholder structure and the changes caused by globalization, in the forest sector. The primary documents of interest are the annual reports of case companies UPM and Stora Enso and from their major investors. One of the primary reasons to use annual reports is their transparency and accuracy. The ownership structures are required to comply with regulatory mandates and therefore ensures that the information is accurate, timely, and reliable.

Additionally, the disclosure of ownership information in annual reports often follows a standardized format, which is invaluable for comparative analysis. Standardization allows for a structured and organized presentation of data, making it easier to compare ownership structures across different companies. This consistency in data presentation

is essential for drawing accurate conclusions and understanding the broader implications of ownership structures.

Shareholder base of case companies includes only direct registered holdings, thus certain holdings (which may be substantial) of ordinary shares and American depositary receipts (ADRs) held in nominee or brokerage accounts can not be included. According to Investopedia (2023) an ADR is a certificate issued by a U.S. bank that represents shares of a foreign company's stock, allowing it to trade on U.S. stock markets. ADRs provide a means for U.S. investors to invest in international companies without buying the actual shares directly, while also offering foreign companies access to U.S. capital without listing directly on U.S. exchanges.

According to WallstreetMojo (2023) a nominee is an individual or entity appointed to manage assets and securities on behalf of the actual owner, shielding the identity of the beneficial shareholder from public view. This role grants the nominee the authority to conduct financial transactions, such as those involving bank deposits, real property, and stocks. While the nominee acts as a trustee or guardian, safeguarding assets when the actual owner is absent, the original owner maintains all beneficial entitlements to the assets.

As stated by Finlex (2017) nominee registration is only possible for foreign investors in Finland. The administrator of the trustee registration must provide the corresponding information about the agent acting on behalf of the owner, as well as a written declaration by her that the real owner of the shares is not a Finnish natural person or a Finnish entity or foundation.

A significant portion of UPM's shares is held in nominee accounts. Notably, Skandinaviska Enskilda Banken Ab (publ) Helsinki branch holds a considerable 56.16% of these shares, while Citibank Europe Plc accounts for an additional 6.51% (UPM, 2023). These entities represent key examples of registered nominees with substantial shareholdings in the company.

According to De Zoysa and Rudkin (2010) annual reports serve as a pivotal source of information, catering to the diverse needs of various stakeholders in the corporate landscape. In the context of emerging markets, these reports are particularly vital. They not only provide insights into a company's financial health and operational performance but also shed light on managerial effectiveness in fulfilling fiduciary duties. By addressing the information requirements of investors, who are primary providers of risk capital, annual reports inherently cater to the informational needs of a broader user base. This widespread reliance on annual reports is further evidenced by numerous studies that have explored their utility across different global markets, emphasizing their role as a primary communication tool between corporations and their stakeholders

For the UPM case analysis, annual reports from 1996 and 2022 were selected. The year 1996 is particularly significant as it marks UPM's first year of operations, even though the company was officially established through the merger of its predecessors only towards the end of April. On the other hand, the 2022 report provides the most recent data available for UPM. Similarly, the 1999 Stora Enso annual report was chosen for this thesis given its importance as the first report following the company's merger, while the 2022 report provides the latest available data for Stora Enso. All analyzed documents are listed in Table 3.

**Table 3.** The analyzed documents.

| Document name                               | Publisher  | Date of publication | Pages | Findings   |
|---|------------|---------------------|-------|--|
| Solidium - Annual Report 2023               | Solidium   | 09.08.2023          | 51    | Solidium's stake in Stora Enso and strategic factors underpinning the firm's investment decisions. |
| Actions for the future - Annual report 2022 | UPM        | 03.03.2023          | 125   | Shareholder structure, dividend policy   |
| Stora Enso - Annual Report                  | Stora Enso | 14.02.2023          | 221   | Shareholder structure,   |

|   |             |            |     |   |
|---|-------------|------------|-----|---|
| 2022  |             |            |     | dividend policy   |
| BlackRock - Annual Report 2022  | BlackRock   | 31.12.2022 | 72  | Strategic factors underpinning the firm's investment decisions.                               |
| Responsibly for you - Ilmarinen's Annual and Sustainability report 2022 | Ilmarinen   | 16.02.2023 | 92  | Strategic factors underpinning the firm's investment decisions.                               |
| Elo Pension Company - Annual and responsibility report 2022             | Elo         | 17.02.2023 | 73  | Strategic factors underpinning the firm's investment decisions.                               |
| Varma - Annual and Sustainability Report 2022                           | Varma       | 07.03.2023 | 125 | Strategic factors underpinning the firm's investment decisions.                               |
| FAM - Our strategy as a long-term owner                                 | FAM         | 30.03.2021 | 12  | Fam's stake in Stora Enso and strategic factors underpinning the firm's investment decisions. |
| Stora Enso - Annual Report 1999   | Stora Enso  | 10.02.2000 | 106 | Shareholder structure, dividend policy  |
| UPM-Kymmene - Annual Report 1996  | UPM-Kymmene | 11.03.1997 | 73  | Shareholder structure, dividend policy  |

## 5 Findings

The Findings section is structured into seven subchapters. Subchapters 5.1 and 5.2 delve into the motivations behind investments based on insights from two key interviews. Subchapter 5.3 presents a detailed case study of Stora Enso, detailing its shareholder structure and its influence on strategic direction. Similarly, Subchapter 5.4 offers an in-depth examination of UPM. Subchapter 5.5 draws comparisons between UPM and Stora Enso, emphasizing their distinctive and shared characteristics. Subchapter 5.6 examines the significant shareholders in both companies. Finally, Subchapter 5.7 provides a cohesive summary of these findings.

### 5.1 Shareholder motivations based on interview data of Interviewee A

#### **Motivations for Investing in the Forest Sector:**

Interviewee perceives the forest sector as a natural investment sector, especially for small investors. With Finland boasting several major international forestry players, the domestic market becomes an attractive proposition for Finnish investors. The familiarity of the forest industry, combined with its historical popularity, makes it a go-to sector for many. For small investors who seek steady dividends, the forest sector is a good choice. On the other hand, larger investors often have a broader perspective, eyeing strategic influences, potential acquisitions, and the possibility of affecting company strategy.

Interviewee emphasizes the low correlation of forestry assets with traditional asset classes, offering a unique diversification opportunity. The sustainable nature of forestry, combined with rising global demand for wood products, further enhances its investment appeal. Interviewee describes the set of motivational differences between different shareholder groups quite low. It's not that the motives are that different, but rather the emphasis varies for different motives between different institutions and individual investors.



### **Financialization of the forest sector:**

From a financial perspective, the interviewee describes the returns from forest companies as moderate but consistent. He emphasizes the sector's resilience, supported by the rising demand for renewable products. The evolving societal perceptions, especially the shift from plastic to renewable paper and wood products, further increases the sector's attractiveness. Additionally, the interviewee expresses concern about the commercialization of forests. For the interviewee, the sustainable utilization of forests, especially given their status as Finland's largest natural resource, is very important.

In recent years, the interviewee has observed a noticeable shift in the forest sector, particularly in the way it's being influenced by financial markets and institutions. It's evident that forests, especially timberland, are now viewed as valuable assets, offering stable returns in an unpredictable financial landscape. This has attracted a lot of interest from institutional investors and private equity firms. The core essence of forestry has always been about understanding the land and sustainable management. With financial actors coming in, there's a risk that short-term profit motives might overshadow the long-term sustainability of our forests. It's crucial to find a balance to ensure the health and longevity of our forests.

### **Sustainability and Environmental Factors:**

On the sustainability front, the interviewee notes the increasing emphasis both small and institutional investors place on ESG metrics. Finnish forest companies, with their global reputation for transparency and sustainable practices, naturally emerge as attractive investment options. The interviewee states that in a market economy, ESG values are the most effective for market evaluation, and the market would naturally drive down industries perceived as unethical in a long run.

### **Risks and Challenges:**

The interviewee identifies the cyclical nature of the industry and the challenges posed by global competition as primary risks. However, he also acknowledges the industry's adaptability, its innovative spirit, and its ability to pivot in response to global renewable

product trends. The interviewee emphasizes the need for investors to be prepared for the industry's inherent cyclical nature, even as it benefits from the demand for renewable products.

#### **Future Outlook:**

Looking ahead, the interviewee envisions a transformative phase for the forest sector. He anticipates increasing interest from investors, driven by the global focus on climate change and technological innovations. The interviewee believes that as emerging markets mature, there will be a surge in investments in the forest sector, further diversifying the shareholder base.

## **5.2 Shareholder motivations based on interview data of Interviewee B**

#### **Motivations for investing in the forest sector:**

The interviewee highlights the opportunities in the forest industry, from financial returns on environmental and social impact. He believes that while shareholder motivations might vary, the overarching goal remains consistent: long-term value creation. The interviewee underscores the importance of competitive advantages, stable financial returns, ESG impact and the potential of new innovations when investors think about an investment.

#### **Financialization of the forest sector:**

The interviewee describes the current returns as moderate from companies like UPM and Stora Enso. However, he is optimistic about the profitability of their new business ventures and therefore could offer high returns in future. The interviewee believes that the EU's climate goals and the push for carbon neutrality, will be significant catalysts for innovation and growth in the forest sector. The interviewee also describes large investments in new production plants, often financed through debt, and the potential risks and rewards associated with them.

The interviewee noticed the growing influence of financial actors in the forest sector. New businesses in the forest industry, like renewable textiles and bio-based fuels, are getting attention, especially with the EU's climate goals. This has made the sector appealing for investors looking for green investment opportunities. However, there's a flip side. While these financial institutions bring in capital, they also come with a focus on immediate returns. Finnish people has always prided themselves on sustainable forest management, and it's essential that this spirit isn't lost. The challenge is to ensure that these financial interests align with the sector's traditional values. After all, forests aren't just about profits; they're about our future.

**Sustainability and Environmental Factors:**

The interviewee stresses the pivotal role of ESG metrics in modern investment decisions. He sees the trend that industries that align with ESG criteria are not performing as well as others industries. The emphasis should be on sustainability when investing in ESG companies, and not in profit maximization.

**Risks and Challenges:**

The interviewee points to the fierce global competition and the inherent risks of significant investments as potential challenges. However, he also emphasizes the robust global presence and competitive advantages of companies like UPM and Stora Enso, viewing them as relatively secure investment options. He believes that while the forest sector offers numerous opportunities, its core business remains challenging, making it essential for investors to manage their expectations.

**Future Outlook:**

The interviewee anticipates a shift in the shareholder composition of the forest sector, with a potential increase in institutional investors. Innovations that lead to increased profitability, combined with improved ESG -reporting, will be key drivers in attracting these investors. He also believes that the escalating global focus on climate change, technological advancements, and changing regulatory landscapes will play pivotal roles in shaping the future of the forest sector.

### 5.3 CASE: STORA ENSO

According to Stora Enso (2023) its inception in 1998 was the result of a merger between two prominent companies: Finland's Enso Oyj and Sweden's Stora Kopparbergs Bergslags Aktiebolag often referred to as STORA. However, the roots of these entities stretch back over seven centuries, making their combined history rich and multifaceted.

The Swedish component, Stora Kopparbergs Bergslags Aktiebolag, has records dating back to 1288, primarily associated with copper mining activities near Falun, Sweden. By 1862, the company, known as Stora Kopparbergs Bergslag, had diversified into mining, iron, and wood industries. Forestry remained a pivotal aspect of its operations, given the demand for wood in both fueling and copper ore processing. By the 1970s, Stora strategically pivoted away from mining and metals, concentrating its efforts on forestry, pulp, and paper.

On the Finnish side, the origins of Enso Oyj can be traced back to 1872 with the establishment of the W. Gutzeit & Co sawmill in Kotka by Norwegian entrepreneur Hans Gutzeit. This venture was notable for being among Finland's earliest steam-powered sawmills. A significant development occurred in 1912 when Gutzeit acquired Enso träsliperi AB. Over the subsequent decades, through strategic mergers and acquisitions, Enso-Gutzeit evolved into Finland's foremost forestry enterprise. A notable merger with Veitsiluoto in 1996 led to the company adopting the name Enso Oy. The eventual merger of these two historic entities in 1998 gave birth to Stora Enso, a company with a legacy deeply intertwined with the forestry sector of both Finland and Sweden.

Based on Stora Enso Annual Report (2022) Stora Enso is a pioneer in the field of renewable materials, putting it at the forefront of the global bioeconomy. The company has carved out a niche for itself as a prominent supplier of renewable products in industries such as packaging, biomaterials, and wooden construction. In addition, the company's status as one of the world's largest private forest proprietors emphasizes its commitment to sustainable forest management. The belief in the transformative force of trees is central to Stora Enso's mission. The organization envisions a future in which

fossil-based materials are replaced by alternatives derived from trees. Sustainability is profoundly ingrained in Stora Enso's business strategy, it is the very foundation of its operations.

Stora Enso's contributions to a biobased circular economy are most notable in three crucial areas: combating climate change, preserving biodiversity, and promoting circularity. By providing low-carbon and recyclable fiber-based products, the company not only demonstrates its commitment to a greener future, but also helps its consumers meet the rising demand for sustainable and environmentally responsible products.

Furthermore, Stora Enso emphasizes the importance of understanding customer needs and aligning its production asset portfolio accordingly to implement its strategy successfully. The company conducts profound and detailed pre-feasibility and feasibility studies for each large investment to mitigate risks associated with strategic projects. Stora Enso acknowledges that failure to realize expected benefits from acquisitions or asset sales can have serious financial impacts. Rigorous M&A guidelines, including due diligence procedures, are applied to evaluate and execute all acquisitions.

### **5.3.1 Effect of shareholder composition in Stora Enso**

As mentioned by Interviewee A shareholders, especially large shareholders seek to influence investment decisions and strategies. Stora Enso, a global leader in the forest industry, is no exception to this. According to Stora Enso annual report (2022) its shareholder structure, encompassing a blend of institutional and retail investors, has cultivated a multifaceted investment strategy. The company has channeled funds into various sectors within the forest industry, such as renewable packaging, biomaterials, wooden constructions, and paper. This broad-based approach resonates with the diverse interests and risk preferences of its shareholders, ensuring a well-rounded portfolio resilient to market fluctuations.

Stora Enso has a global shareholder structure; as a Finnish-Swedish enterprise, a significant portion of its shareholders, who are non-Finnish and non-Swedish shareholders invest under nominee names. These shareholders account for 55.7% of the company's

ownership, illustrating a highly international shareholder base. This diverse shareholder composition has likely been a driving force in the company's strategic decision to pursue investments beyond its domestic markets, thereby expanding its global footprint and capitalizing on new markets and opportunities.

Stora Enso has a dual-class share structure, with Class A shares carrying one vote each and Class R shares carrying one vote every 10 shares (Stora Enso, 2023). Due to this structure, this study uses shareholder voting power to assess changes in ownership structure, instead of percentage of shares owned. According to Stora Enso annual report (2022) Governmental institutional investors like Solidium and Fam both have 27.3 % of voting power. These investors are known for their long-term investment outlook, which has likely influenced Stora Enso to embrace a forward-looking investment approach. This inference is supported by the company's substantial investments in sustainable and pioneering solutions, emphasizing future growth over immediate profits. In Stora Enso, voting power plays a pivotal role in determining the influence shareholders have over corporate decisions.

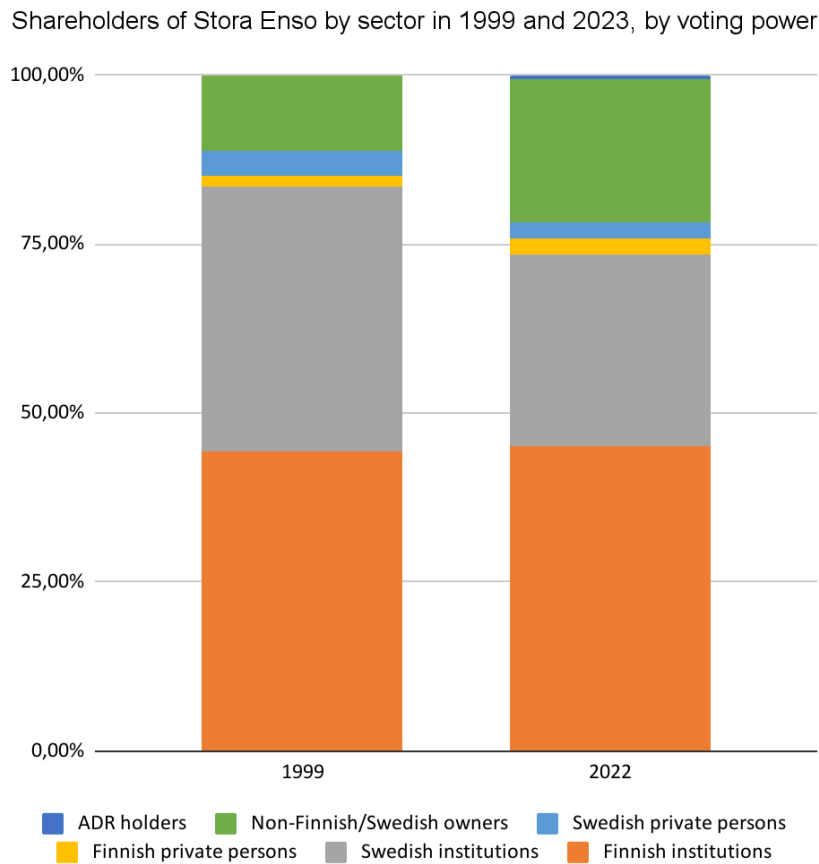
Stora Enso promotes its dedication to sustainability, which has attracted investors that are interested in companies exhibiting robust ESG standards. This in turn has driven Stora Enso to further accentuate investments in green initiatives, in order to cater for its investors. For example, the company has been proactive in minimizing its carbon emissions and pioneering renewable alternatives to traditional fossil-based resources.

The shareholder structure of Stora Enso, as illustrated in Figure 2, has undergone significant changes between 1999 and 2022. Initially, in 1999, the voting power was largely balanced between Finnish and Swedish institutions. However, by 2022, this balance shifted noticeably. The voting power of Swedish institutions diminished, with a concurrent rise in the influence of non-Finnish/Swedish owners.

Finnish institutions saw a slight increase in their voting rights from 44.3% in 1999 to 45% in 2022. Conversely, Swedish institutions witnessed a substantial decrease, from holding 39.1% of the voting rights in 1999 to only 28.40% in 2022. The most notable

transformation is the non-Finnish/Swedish ownership category, which grew from holding 11.1% of the voting rights in 1999 to a significant 21.9% in 2022. These shifts are further detailed in Table 4, which lists the largest shareholders for both years.

In terms of individual ownership, there has been a contrasting trend between Finnish and Swedish private shareholders. Over the years, Finnish private shareholders have increased their stake, increasing their voting power from 1.7% in 1999 to 2.4% in 2022. On the other hand, Swedish private shareholders experienced a decline, with their voting rights decreasing from 3.8% in 1999 to 2.3% in 2022, indicating a relative increase in Finnish ownership compared to Swedish. Detailed list of largest shareholders is in table 4.



**Figure 2.** Division of voting power of Stora Enso's shareholders by sector in 1999 and 2022.

### **5.3.2 Shareholders' Influence on Stora Enso's Strategic Decisions**

To understand the role of shareholders in Stora Enso strategy and operations it is important to understand the role of the Annual General Meeting (AGM). According to Stora Enso Annual Report (2022) AGMs provide shareholders a platform to voice concerns, exercise voting rights and directly impact Stora Enso strategy by taking part in the decision-making process. Major decisions are taken by the shareholders at the AGM's and at the Extraordinary General Meetings. Extraordinary General Meeting of Shareholders is called either at the discretion of the Board of Directors or upon a written request from the auditor or shareholders who collectively own at least one-tenth of all shares, specifically to address a designated issue they have highlighted

As stated by Stora Enso Annual Report (2022) the AGM established the Shareholders' Nomination Board, which annually recommends board composition and remuneration. This board, governed by an AGM-approved Charter, consists of the main board's Chair and Vice Chair, plus two representatives appointed from the two largest shareholders. The board remains active indefinitely unless the AGM decides otherwise, with members serving until their successors are chosen.

According to Stora Enso Annual Report (2022) the Board of Directors oversees the management and operations of Stora Enso, ensuring compliance with the Finnish Companies Act and other relevant regulations. The Board, consists of six to eleven members, and is appointed annually by shareholders during the AGM. A significant portion of these directors are independent from the company, with at least two being independent from significant shareholders, defined as those holding 10% or more of the company's shares.

The Board's responsibilities include key decisions on strategy, investments, organizational structure, and financial matters. They also oversee the company's accounting and financial controls. The AGM elects the Board's Chair and Vice Chair, and in case of vacancies, the Board can appoint replacements. Annually, the Board sets its focus areas and appoints Global Leadership Team Members, including the CEO and CFO.



They also review and adjust the CEO's remuneration and evaluate the Board's performance, with findings shared with the Shareholders' Nomination Board. The Board's efforts are supported by its committees, such as the Financial and Audit Committee and the Sustainability and Ethics Committee. Meeting at least five times annually, Board members also convene without the management to ensure unbiased discussions..

Based on Stora Enso Annual Report (2022) it is clear that shareholders play a pivotal role in shaping the company's direction and governance. Through the AGM, shareholders establish key bodies like the Shareholders' Nomination Board, which is responsible for proposing Board members and their remuneration. The AGM also approves significant decisions, including the appointment of the Board of Directors and their remuneration, ensuring that the company's leadership aligns with shareholder interests. Furthermore, shareholders have the right to participate in decision-making processes, exercise their voting rights, and raise questions to the company's management and Board of Directors during shareholders' meetings. This active involvement underscores the shareholders' integral role in Stora Enso's governance and strategic direction.

**Table 4.** Shareholders of Stora Enso by voting power in 1999 and 2022.

| Largest Shareholders as of 30 December 1999   |            |            |             | Stora Enso | Largest shareholders as at 31 December 2022            |            |            | Stora Enso  |
|---|------------|------------|-------------|------------|--|------------|------------|-------------|
| Voting power                                  | A shares   | R shares   | % of shares |            | Voting power   | A shares   | R shares   | % of shares |
| Finnish State 24.1%                           | 55,595,937 | 81,483,501 | 18.0%       |            | 1 Solidium Oy 27.3%                                    | 62,655,036 | 21,792,540 | 10.7%       |
| Investor AB 24.1%                             | 61,991,786 | 15,900,962 | 10.3%       |            | 2 FAM AB 27.3%   | 63,123,386 | 17,000,000 | 10.2%       |
| Social Insurance Institution of Finland 9.2 % | 23,825,086 | 3,738,965  | 3.6%        |            | 3 Social Insurance Institution of Finland (KELA) 10.0% | 23,825,086 | 0          | 3.0%        |

|   |            |            |      |  |           |            |      |
|---|------------|------------|------|--|-----------|------------|------|
| Sampo-Varma Group 7.7%                    | 20,250,785 | 0          | 2.7% | 4 Ilmarinen Mutual Pension Insurance Company 2.4%    | 4,172,492 | 14,900,000 | 2.4% |
| Fourth General Pension Fund 3.1%          | 7,318,308  | 8,732,091  | 2.1% | 5 Varma Mutual Pension Insurance Company 2.2%        | 5,163,018 | 1,140,874  | 0.8% |
| Robur 2.1%                                |            | 54,522,146 | 7.2% | 6 MP-Bolagen i Vetlanda AB 2.1%                      | 4,885,000 | 1,000,000  | 0.7% |
| Franklin Resources Inc. *) 1.7%           | 848,981    | 36,124,746 | 4.9% | 7 Elo Mutual Pension Insurance Company 1.2%          | 2,000,000 | 7,601,000  | 1.2% |
| Skandia Life 1.0%                         | 2,305,855  | 3,858,602  | 0.8% | 8 Bergslaget's Healthcare Foundation 0.3%            | 626,269   | 1,609,483  | 0.3% |
| Erik Johan Ljungberg's Training Fund 0.9% | 1,880,540  | 4,831,804  | 0.9% | 9 SEB Investment Management 0.3%                     | 0         | 6,976,453  | 0.9% |
| Knut and Alice Wallenberg Foundation 0.7% | 1,670,467  | 2,387,000  | 0.5% | 10 The State Pension Fund 0.2%                       | 0         | 5,000,000  | 0.6% |
| Enso's pension foundation 0.5%            | 1,300,000  | 0          | 0.2% | 11 The Society of Swedish Literature in Finland 0.1% | 0         | 3,000,000  | 0.4% |

|   |             |             |       |                                       |             |             |       |
|---|-------------|-------------|-------|---------------------------------------|-------------|-------------|-------|
| SPP Insurance Company 0.3%                                | 12,4        | 7,782,652   | 1.0   | 12 Avanza Pension Insurance 0.1%      | 146,285     | 1,268,398   | 0.2%  |
| Bergslaget's Sick and Healthcare Foundation 0.3%          | 626,269     | 1,609,483   | 0.3%  | 13 Unionen (Swedish trade union) 0.1% | 0           | 2,612,750   | 0.3%  |
| Handelsbanken's Pension Fund 0.3%                         | 635         | 1,180,000   | 0.2%  | 14 Afa Insurance 0.1%                 | 0           | 2,381,676   | 0.3%  |
| Gamla livförsäkringsaktiebolaget (insurance company) 0.3% | 582,557     | 1,613,564   | 0.3%  | 15 SEB AB, Luxembourg Branch 0.1%     | 2,177       | 1,785,231   | 0.2%  |
| 20 largest in total 77.3%                                 | 181,431,071 | 226,780,452 | 53.7% | Total 73.9%                           | 166,598,749 | 88,068,405  | 32.3% |
| Other 22.7%   | 27,520,117  | 323,878,049 | 46.3% | Nominee-registered shares 52.5%       | 75,058,822  | 496,088,402 | 72.4% |

**Table 5.** Shareholders of Stora Enso by sector in 1999 and 2022.

| Distribution of shares, 30 December 1999 |             |                    |                   | Stora Enso | Ownership distribution, 31 December 2022       |             |            | Stora Enso        |
|--|-------------|--------------------|-------------------|------------|--|-------------|------------|-------------------|
| Sector                                   | % of shares | % of voting rights | % of shareholders |            | Sector   | % of shares | % of votes | % of shareholders |
| Finnish institutions                     | 28.4%       | 44.3%              | 1.9%              |            | Finnish institutions (incl. Solidium and KELA) | 23.5%       | 45%        | 2.4%              |

|                              |       |       |       |  |            |            |           |
|------------------------------|-------|-------|-------|--|------------|------------|-----------|
| Swedish institutions         | 32.2% | 39.1% | 4.5%  | Swedish institutions incl. FAM)          | 12,10%     | 28,40%     | 1,00%     |
| Finnish private shareholders | 1.5%  | 1.7%  | 22.2% | Finnish private shareholders             | 3.9%       | 2.4%       | 46.9%     |
| Swedish private shareholders | 5.6%  | 3.8%  | 70.1% | Swedish private shareholders             | 3.1%       | 2.3%       | 47.9%     |
| Non-Finnish/Swedish owners   | 32.3% | 11.1% | 1.3%  | non-Finnish/Swedish owners + ADR holders | 55.7%+1.7% | 21.3%+0.6% | 0.8%+0.8% |

## 5.4 Case: UPM

According to UPM (2023) it has a storied history that dates back to the 1870s, marking its significance in Finland's burgeoning forest industry. The modern incarnation of the corporation emerged in autumn 1995, as a result of the strategic merger between Kymmene Corporation and Repola Ltd with its subsidiary, United Paper Mills Ltd. This union led to the birth of UPM-Kymmene, which officially began its operations on 1 May 1996.

The evolution of UPM is a chronicle of its steadfast commitment to the forest sector. The company's early endeavors in the 1870s saw the establishment of its inaugural mechanical pulp mill, complemented by paper mills and sawmills. Next decade 1880s marked UPM's foray into pulp production. This was succeeded by its expansion into paper converting in the 1920s and, later, the introduction of plywood production in the following decade.

UPM's legacy is deeply connected to specific Finnish regions, notably Valkeakoski and Kuusankoski. Two foundational entities, Aktiebolag Walkiakoski and Kymmene Ab, were

established in these regions in 1871 and 1872. Several significant Finnish forest industry companies, such as Kymi, United Paper Mills, Kaukas, Kajaani, Schauman, Rosenlew, Raf. Haarla, and Rauma-Repola have all been integrated into the current UPM Group along the years.

According to UPM Annual Report (2022) as a frontrunner in biomaterials UPM provides renewable alternatives for fossil-based materials in everyday use. Responsibility is at the core of everything UPM does. Their products enable their customers and consumers to make more sustainable choices. UPM invests in sustainable growth and innovates towards a future beyond fossils

Based on the UPM Annual Report (2022) the company has 55 production plants, and 17.200 employees in 44 countries. Its extensive customer base includes 10,500 customers and 170 million end-users globally. The core business of UPM is diversified into six different areas: Fibres, Energy, Raflatac, Specialty Papers, Communication Papers, Plywood. Additionally its other operations contain forest biofuels, biochemicals, biomedical, and biocomposites.

In the subsequent five paragraphs, UPM business model (2023) is presented. UPM operates through the six above-mentioned core business segments, each with robust market positions, competitive edge, and leading performances in both financial and sustainability metrics. The company's business model has consistently demonstrated its efficacy, offering numerous advantages.

UPM's business model has been successful in part due to its emphasis on transparency and accountability. This success is manifested through its methods of benchmarking, target setting, commercial strategies, and implementing effective incentive structures. Additionally, the model prioritizes cost competitiveness, through increased operational agility, improved efficiency, and optimized sourcing. A key element of UPM's strategy is its focus on growth, directing investments towards areas with potential for attractive returns and a clear competitive advantage.

UPM primary objective is to enhance value for both its business operations and stakeholders. This goal is realized through several key strategies. Firstly, the company focuses on competitive and sustainable practices in wood sourcing, forestry, and plantation operations. Additionally, UPM invests in adding value through efficient and responsible global functions. UPM's dedication to continuous improvement can be seen from (Smart) programmes, which align with its focus on leveraging technology and intellectual property rights. The company serves a great global platform to build on. It also focuses on disciplined and effective capital allocation. UPM has a strict adherence to applicable laws, regulations, and corporate policies, ensuring compliance across all operations.

The company pays an attractive dividend to its shareholders, and maintains a robust balance sheet, which not only mitigates potential risks, but also positions UPM to seize strategic opportunities. Moreover, decision-making within UPM is very structured. Each business segment is responsible for executing strategies and achieving targets, while receiving overarching direction and support from global functions. This structure enables the segments to fully leverage the advantages of UPM's brand, its expansive scale, and integrated operations.

#### **5.4.1 Effect of shareholder composition in UPM**

UPM's shareholder structure, which comprises a mix of institutional and private investors, has fostered a diversified investment approach (UPM, Annual Report, 2022). As previously mentioned the company has invested across a range of different sectors with competitive advantage and promising sustainable returns. This diversification aligns with the varied interests of its shareholders, ensuring a balanced portfolio that can withstand market volatilities.

The big institutional investors like Varma, Ilmarinen, and Elo, detailed in table 7, typically have a long-term investment horizon. This has likely encouraged UPM to adopt a long-term sustainable investment strategy. This conclusion can be drawn since UPM has

made significant investments in sustainable and innovative solutions aimed at future growth rather than short-term gains.

According to the UPM Annual Report (2022) the notable projects that indicate strong investments in sustainable and innovative solutions are: The Montevideo pulp terminal in Uruguay, which was inaugurated in 2022. The completion of the Paso de los Toros pulp mill in Uruguay, which will increase UPM's pulp production capacity by over 50%. The Olkiluoto 3 nuclear power plant unit, which will increase UPM Energy's carbon-free power generation by almost 50%. UPM Biorefining's biochemical refinery project in Leuna, Germany, which is the world's first wood-based biochemicals plant.

UPM's expansion into global markets, supported by its shareholders, reflects the insights from interviewees who recognize forestry assets as increasingly valuable for diversifying investment portfolios. UPM's key initiatives, such as enhancing production capabilities and investing in carbon-neutral energy solutions, resonates with the growing environmental awareness discussed during the interviews.

UPM has a proactive shareholder engagement policy which allows for a two-way communication between the company and its shareholders (UPM, Annual Report, 2022). This engagement aims to facilitate a better understanding of shareholder expectations, which in turn, guides UPM's investment decisions.

According to UPM Annual Report (2022) the trust and support of shareholders have enabled UPM to access external funding at favorable terms, providing the financial flexibility required to pursue strategic investments. The company's strong financial position, as reflected in its credit ratings, is a testament to the positive impact of its shareholder structure on its investment conduct. UPM has a global shareholder structure with nominees and registered foreign owners owning 68,09% of the company shares.

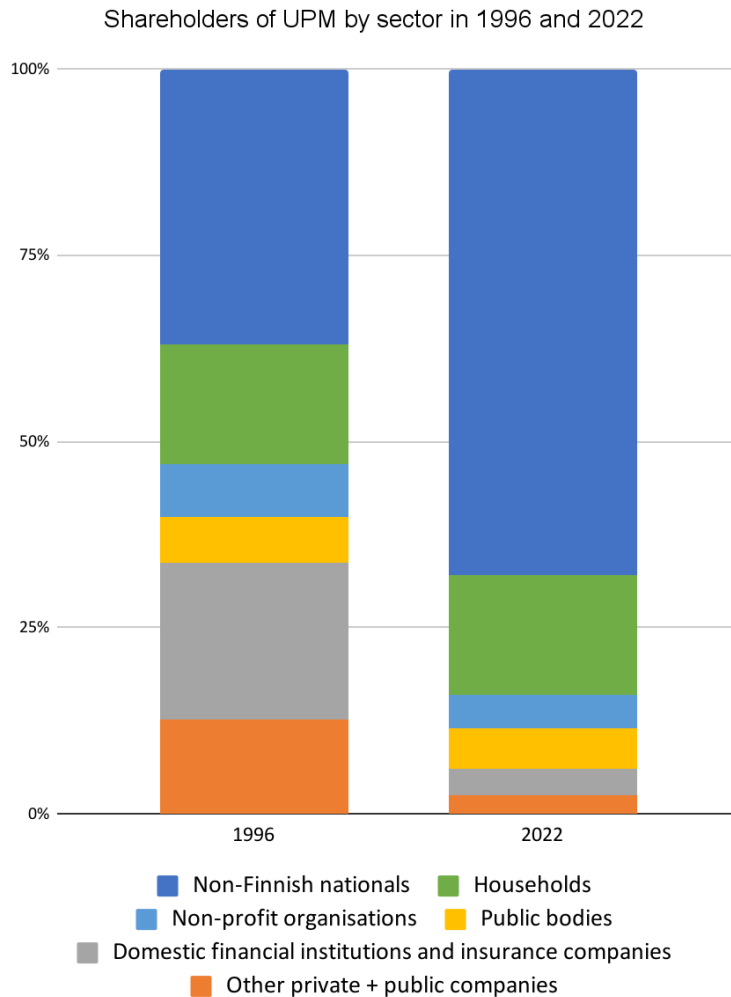
Over the span from 1996 to 2022, UPM shareholder composition has undergone notable transformation (Figure 3). Initially, in 1996, Finnish private and public companies were significant stakeholders, holding 9.6% of the shares. However, by 2022, their stake had

diminished to a 2.6%. Similarly, Finnish financial institutions and insurance companies, once holding a 21% of shares in 1996, saw their share shrink considerably to 3.6% by 2022.

On the other hand, non-Finnish nationals exhibited a contrasting trend. Their shareholding nearly doubled, growing from 37.0% in 1996 to a dominant 68.1% by 2022. Meanwhile, other shareholder categories like public bodies and non-profit organizations experienced marginal declines. Public bodies' stake went from 6.2% in 1996 to 5.3% in 2022, and non-profit organizations' share decreased from 7.1% to 4.5% over the same period. Interestingly, household shareholding remained relatively consistent, with only growing from 15.9% in 1996 to 16.0% in 2022. Detailed list of largest shareholders in 1996 and 2022 is in Table 6.

While some shareholder categories like Finnish companies and institutions witnessed significant reductions in their stakes over the years, non-Finnish nationals emerged as dominant stakeholders in UPM by 2022. Other categories, such as households, maintained a relatively stable presence throughout this timeframe, indicating long-term commitment and trust towards the forest industry.





**Figure 3.** Shareholders of UPM by sector in 1996 and 2022.

#### 5.4.2 Shareholders' influence on UPM strategic decisions

In the UPM Annual Report (2022), it's noted that shareholders exercise their rights and voice opinions during the Annual General Meeting (AGM). Analysis of UPM's AGM notes reveals that, financial and other decisions made during the AGM meeting are in accordance with proposals by the Board of Directors. This suggests that while shareholders may not have direct decision-making power over specific investments, they do have a platform to express their views and potentially influence strategic directions.

According to UPM Annual Report (2022) the Board of Directors, which is responsible for setting the company's strategic objectives and reviewing investment decisions, is elected by the shareholders. Through this election process, shareholders can influence the composition of the Board, and indirectly, the strategic and investment decisions made by the Board. Shareholders have a say in the remuneration of the Board of Directors and the Group Executive Team during the AGM. By approving or disapproving remuneration proposals, shareholders can signal their satisfaction or dissatisfaction with the company's strategic and investment directions.

As stated in UPM Annual Report (2022) shareholders have the opportunity to engage with the governance bodies of UPM, including the Board of Directors and its Committees. The governance structure aims to align the interests of shareholders with the long-term objectives of the company. By adhering to good governance practices, the company seeks to ensure that investment decisions are made in the best interests of shareholders and in line with the company's strategic objectives. By complying with the Finnish Corporate Governance Code, UPM ensures that its governance practices, including those related to investment decisions, are transparent and accountable to shareholders.

**Table 6.** Shareholders of UPM by holding in 1996 and 2022.

| <b>Biggest shareholders<br/>31.12.1996 UPM</b> |            |  | <b>Holding %</b> | <b>Biggest Shareholders<br/>31.12.2022 UPM</b> |            |  | <b>Holding %</b> |
|--|------------|--|------------------|--|------------|--|------------------|
| Pohjola Insurance Company Ltd                  | 13,597,000 |  | 05.09%           | Varma Mutual Pension Insurance Company         | 10,065,404 |  | 1.89%            |
| Ilmarinen Pension Insurance Company            | 11,306,700 |  | 4.23%            | Ilmarinen Mutual Pension Insurance Company     | 8,331,000  |  | 1.56%            |
| Sponda Oy                                      | 8,430,604  |  | 3.15%            | ELO Mutual Pension Insurance Company           | 4,148,000  |  | 0.78%            |

|   |             |        |  |             |         |
|---|-------------|--------|--|-------------|---------|
| Merita Bank Ltd                         | 8,254,140   | 3.09%  | The Society of Swedish Literature in Finland | 2,617,070   | 0.49%   |
| Industrial Insurance Company Ltd        | 5,037,000   | 1.88%  | The State Pension Fund                       | 2,600,000   | 0.49%   |
| Local Government Pension Institution    | 4,660,584   | 1.74%  | Holding Manutas Oy                           | 2,500,000   | 0.47%   |
| Pension-Varma Mutual Insurance Companyd | 3,504,054   | 1.31%  | OP-Suomi Investment fund                     | 2,060,190   | 0.39%   |
| Palkki Group                            | 3,282,939   | 1.23%  | Mandatum Life Insurance Company              | 1,801,493   | 0.34%   |
| Nokia Corporation                       | 2,865,000   | 1.07%  | SECURITY TRADING OY                          | 1,750,000   | 0.33%   |
| Valfin Oy                               | 2,784,396   | 1.04%  | Kymin Osakeyhtiön 100-vuotissäätiö           | 1,696,360   | 0.32%   |
| Nominee-registered shares               | 95,680,653  | 35.79% | Nominees & Registered foreign owners         | 363,421,356 | 68.09%  |
| Others                                  | 88,897,195  | 33.24% | Others                                       | 132,744,826 | 24.87%  |
| Total                                   | 267,373,823 | 100%   | Total  | 533,735,699 | 100.00% |

**Table 7.** Shareholders of UPM by sector in 1996 and 2022.

| Shareholders change %                                  | 2022   | 2021   | 2020   | 2019   | 2018   | 1996  |
|--|--------|--------|--------|--------|--------|-------|
| Companies  | 2.6%   | 2.9%   | 2.7%   | 2.3%   | 2.1%   | 9.6%  |
| Finnish Financial institutions and insurance companies | 3.6%   | 3.7%   | 3.8%   | 3.0%   | 2.9%   | 21%   |
| Public bodies  | 5.3%   | 5.8%   | 6.0%   | 5.7%   | 6.8%   | 6.2%  |
| Non-profit organisations                               | 4.5%   | 4.6%   | 4.7%   | 4.6%   | 4.4%   | 7.1%  |
| Households   | 16.0%  | 15.8%  | 15.6%  | 15.2%  | 15.0%  | 15.9% |
| Non-Finnish nationals                                  | 68.1%  | 67.2%  | 67.1%  | 69.1%  | 68.7%  | 37.0% |
| Total  | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100%  |

## 5.5 Differences and similarities between UPM and Stora Enso

Based on the document analysis, both companies have a structured platform for shareholder engagement through Annual General Meetings (AGMs) and Board Representation. UPM has a clear roles among the Board, Committees, and executive management, with shareholders influencing through AGM and Board elections. On the other hand, Stora Enso's engagement with shareholders seems to extend broader stakeholder engagement, including engagement on social media and with EU policies. Stora Enso has a more detailed disclosure on its shareholder composition and the largest shareholders, while UPM's report did not provide such detailed information. Hence, it's possible to conclude that Stora Enso operates with higher transparency regarding its ownership structure.

Both companies have a policy of dividend distribution, indicating a commitment to returning value to shareholders. Also, in 2022, both companies paid record-high dividends to shareholders which indicates that they distribute revenues increasingly to

shareholders, instead of investing it back to the company. This according to earlier research literature can indicate a degree of financialization (e.g. Baud & Durand, 2011).

In summary, while both companies have structured mechanisms for shareholder engagement, Stora Enso seems to have a broader stakeholder engagement approach, and provides more transparency on its shareholder composition. UPM, on the other hand, has a clear governance structure delineating the roles and responsibilities of the Board, Committees, and executive management in relation to shareholder engagement.

Both UPM and Stora Enso experienced a decline in domestic institutional shareholding over the analyzed periods. The most noticeable similarity is the pronounced increase in international ownership in both companies, emphasizing the global appeal and confidence in these forestry giants. Change of shareholder structure reflects the dynamic nature of the global investment landscape. Both companies have attracted increased international attention, underscoring their prominence in the forestry sector and their appeal to global investors.

## **5.6 Motives behind the significant shareholders**

This chapter explores the motives behind the significant shareholders of UPM and Stora Enso. According to Tuominen (2022), who sourced data from the Holdings database (as of (2022-16-02), BlackRock is a significant shareholder, owning 5.31% of UPM's shares and 3.01% of Stora Enso's shares, with a 1% voting right in the latter. In addition, as detailed in Tables 4 and 6, other key shareholders include Solidium, with 10.7% of shares in Stora Enso; FAM AB, holding 10.26% of shares in Stora Enso; Ilmarinen, owning 2.4% of Stora Enso's shares and 1.56% in UPM; Elo, with 1.2% of shares in Stora Enso and 0.78% in UPM; and Varma, holding 0.8% of shares in Stora Enso and 1.89% in UPM. These shareholders were selected to provide insights from a diverse range of significant investors.

### 5.6.1 Significant shareholders of Stora Enso: Blackrock, Solidium and FAM

#### Blackrock

According to Finlex (2012) the shareholder must notify their ownership and voting share to the target company and the Financial Supervisory Authority when the share reaches or exceeds or falls below flag limit of 5, 10, 15, 20, 25, 30, 50 or 90 percent or two-thirds of the target company's votes or the total number of shares. Notably, Stora Enso's 2016 report highlighted BlackRock's fluctuating ownership, both surpassing and dropping below the 5% share capital threshold. Similarly, UPM's 2020 report indicated that BlackRock's indirect shareholding fell below the 5% mark. The historical investment pattern of BlackRock in Stora Enso and UPM indicates a strong strategic interest in the companies.

Annual Report of Black Rock (2022) was analyzed to gain insight into its investment strategy and alignment with its recent stakes in UPM and Stora Enso. BlackRock is one of the world's largest investment companies and leading providers of investment, advisory and risk management solutions. It is focused on delivering the best risk adjusted financial returns for each and every client, inline with their objectives and goals. Thus, given its prominent position in the financial world, gaining insight into their motivations and investment strategies is important.

The company's mission revolves around ensuring that investments are managed with the best interests of the clients in mind. This suggests a long-term, sustainable approach to investments. Therefore we can say that Client-Centric Approach is very important for BlackRock. BlackRock's CEO, Larry Fink, has often highlighted the importance of sustainability and the role of CEOs in addressing global challenges. This suggests that BlackRock values companies that are proactive in addressing environmental and social issues. Given BlackRock's emphasis on sustainability, it's plausible that the sustainable practices of UPM and Stora Enso play a role in BlackRock's investment decision.

BlackRock values transparency in its investments. Both UPM and Stora Enso, being publicly traded companies, provide detailed annual reports, sustainability reports, and

engage in regular communications with shareholders. Their transparent operations and governance structures aligns well with BlackRock's investment criteria. Given BlackRock's belief in active shareholder engagement, it's likely that they engage with UPM and Stora Enso on various strategic, governance, and sustainability matters, ensuring alignment with BlackRock's values and investment strategy.

In conclusion, while the specific reasons for BlackRock's investments in UPM and Stora Enso are not detailed in public sources, the overarching investment strategy and principles of BlackRock suggest a strong alignment with the operations, sustainability practices, and governance structures of UPM and Stora Enso.

### **Solidium**

Solidium is the biggest shareholder in Stora Enso. It is a wholly Finnish state-owned holding company that strengthens and stabilizes Finnish ownership in nationally important companies and increases the value of its holdings in the long term. Its mission is to manage and develop the state's equity investments and to exercise the ownership required to achieve its objectives. Solidium's portfolio includes a range of leading companies in various sectors, and it actively exercises its shareholder rights in these companies. Through its operations, Solidium aims to enhance the financial value of its holdings while also taking into account broad societal considerations.

Solidium has always been keen on identifying and investing in companies that hold national importance. The year 2022-2023, despite its challenges, was marked by a strategic shift in Solidium's investment approach. While traditionally the focus has been on already established companies of national importance, the future will see Solidium identifying potential candidates that could rise to such prominence in the next 5 to 10 years (Solidium Annual Report 2023). This forward-looking approach is driven by the changing dynamics of the global economy and the evolving industrial landscape of Finland. For instance, while the forest industry has been a stronghold for Finland for over 150 years, the rise of the platform economy and the green transition are reshaping the sectors that hold strategic importance.

Stora Enso, with its deep roots in the forest industry and its progressive approach towards sustainable solutions, aligns well with Solidium's vision. Solidium claims that its investment strategy is not just about financial returns, but also about long-term value creation. The companies in their portfolio, including Stora Enso, are compared to international peers to determine their value creation success. This benchmarking approach ensures that the investments are not just nationally significant but also competitive on a global scale. In conclusion, Solidium's investment in Stora Enso is a signal that Stora Enso holds strategic importance in Finland's industrial landscape, and it's seen as a potential leader in the green transition, and valued for its perceived capability in creating long-term value.

## **FAM**

FAM is the second largest owner of Stora Enso. It is a privately-owned Swedish holding company with a rich history rooted in the Wallenberg family's engagement in Swedish enterprise. The company's mission revolves around being a long-term and active owner of market-leading companies, with a particular passion for developing companies with Nordic origins to achieve international world-class status. Their vision is to be one of Sweden's most committed, value-creating, and respected owners of leading companies, supporting the Wallenberg Foundations and benefiting Sweden as a whole.

FAM emphasizes long-term and engaged ownership, working closely with the board and management of its holdings. They believe in creating the right long-term conditions for their portfolio companies and are always on the lookout for new companies that can bring fresh ideas and innovations. FAM recognizes the challenges posed by climate change and the need for businesses to transition to sustainable practices. They believe that being sustainable is profitable for a company's brand, revenue, and costs. FAM acknowledges the rapid technological advancements in areas like digitalization, automation, artificial intelligence, and life sciences. They believe that companies that adapt to these changes and work sustainably will succeed in the future.

FAM's investment strategy is centered on companies that have strong underlying drivers, can achieve global leadership, have strong innovation skills, and contribute to



FAM's financial goals. They also emphasize the importance of having a Nordic corporate governance structure. Given FAM's investment strategy, it's evident that their investment in Stora Enso aligns with their focus on long-term ownership of market-leading companies with Nordic roots. Stora Enso's commitment to sustainability, innovation, and global leadership in the forestry sector makes it a fitting choice for FAM's portfolio. Furthermore, Stora Enso's Nordic corporate governance structure aligns with FAM's investment criteria.

### **5.6.2 Summary of BlackRock, Solidium, FAM**

All three companies, BlackRock, Solidium, and FAM, share certain commonalities in their investment approaches towards Stora Enso. Primarily, they all seem to lean towards a long-term investment horizon. Their interests are not tied to short-term gains; instead, they are deeply rooted in the sustainable growth and stability of the companies they invest in. Another shared aspect of their investment philosophy is the emphasis on the ESG principles.

Although there are similarities in their investment patterns, the motivations of BlackRock, FAM, and Solidium's investments display distinct differences. BlackRock, as a global investment management giant and the world's largest asset manager, typically seeks aggressive financial returns with broader portfolio goals. In contrast FAM, while also seeking high financial returns, primarily focuses on elevating companies with Nordic roots to global prominence.

Solidium, on the other hand, serves a unique role as a wholly Finnish state-owned holding company. For Solidium, financial returns are essential, but its investment decisions are also influenced by national strategic interests, reflecting its mandate to align with the broader goals of the Finnish government.

### **5.6.3 The significant shareholders of UPM: BlackRock, Ilmarinen, Varma, and Elo**

BlackRock's investment motivations in both Stora Enso and UPM suggests similar strategies and objectives. Therefore this section shifts its focus to examine roles of

insurance companies as major investors in UPM and Stora Enso. Finnish private pension companies, Varma, Elo, and Ilmarinen, are the biggest direct common shareholders in UPM. These private pension companies have a long-standing tradition of responsible investment, emphasizing the integration of ESG factors into their investment decisions. This commitment to responsible investment provides a lens through which we can understand their potential motivations for investing in UPM and Stora Enso.

Varma, for instance, has a clear stance against deforestation and expects companies in their portfolio to have zero deforestation in their supply chains. Given that UPM and Stora Enso are deeply involved in sustainable forest management and have initiatives aimed at promoting biodiversity and reducing carbon footprints, they align well with Varma's environmental expectations. Similarly, Elo's and Ilmarinen's focus on reducing the carbon intensity of their investments and aligning with global climate goals makes UPM and Stora Enso attractive investment options, given the companies' commitments to sustainable forestry and carbon-neutral operations.

Forests are Finland's largest natural resource. As such, there's a national interest in ensuring the sustainable and profitable management of this resource. Ilmarinen, with over two decades of considering environmental and human rights factors in their investments, would naturally gravitate towards Finnish companies like UPM and Stora Enso that not only represent national interests but also align with their long-term sustainability goals.

In conclusion large domestic institutional investors, such as these pension companies, often seek not just financial returns but also the opportunity to influence corporate strategies towards more sustainable and responsible practices. Investing in major players like UPM and Stora Enso offers them a seat at the table, allowing them to engage with these companies on ESG matters and drive positive change from within.

## 5.7 Summary of findings

Institutional investors have become dominant shareholders in both case companies and as Interviewee A pointed out, seek the unique diversification opportunities provided by forestry assets. This trend is underscored by the presence of these institutional investors and has brought a more diversified and global perspective to the companies' shareholder base, but can also add pressure to managing boards to prioritize shareholder value maximization, as indicated also by earlier research.

However, according to the analysis, the large Finnish institutional investors seem to place long-term sustainability high on their agenda, and seem to use their influence in the companies towards long-term environmental sustainability in addition to stable financial performance. This aligns with Interviewee B's insights, which underscore the importance of ESG considerations and innovation for investors. Finnish households have remained loyal investors in both companies, and seem to value the familiarity and predictability of the forest sector, meanwhile Swedish institutional and private ownership has decreased in Stora Enso.

The interview data indicates that the motivations for investment in the forest sector exhibit some distinctions between small private investors (households) and institutional investors. For Finnish households, entities like UPM and Stora Enso emerge as attractive investment opportunities primarily owing to their familiarity and perceived security. In a broader context, the forest sector is regarded as a secure investment option due to its consistent dividend policies. In contrast, institutional investors seek opportunities to influence company strategies and seek benefits from acquisitions within the forest sector.

The forest sector is recognized as an emerging asset class that offers diversification opportunities for investors. The rising global demand for forest-based products, coupled with the good reputation of the Finnish forest sector, adds to its investment appeal. Speculation regarding burgeoning carbon markets and the European Union's climate targets further adds investors' interest in the forest sector, as noted by interviewees.

Despite the intense global competition within the forest sector, investors acknowledge both UPM and Stora Enso as global leaders, making them attractive and relatively secure investment choices.

According to interviewees, the reputational aspects of sustainable practices, combined with ESG metrics in the forest sector, hold substantial significance for investors. Furthermore, the European Union's commitment to achieving carbon neutrality serves as a catalyst for innovation and growth within the sector, thereby attracting investors. Both interviewees foresee an increasing involvement of institutional investors and financial entities in the forest sector. Innovations that yield higher value-added products and improved ESG reporting are recognized as pivotal factors in luring these investors. Nevertheless, financial actors, while providing capital, also expect immediate returns on their investments. This, according to both interviewees, can potentially limit the long-term sustainability of companies, aligning with observations in the existing literature. Interviewee B further emphasizes that company boards frequently confront pressures to maximize shareholder value.

## 6 Discussion

Stora Enso is bound to deliver long-term results as its two largest shareholders, Solidium and FAM, who use their influence to steer strategic decision making towards long-term sustainability, green transition, and also place value on the ESG performance. UPM's three biggest direct investors Ilmarinen, Elo, and Varma have a long-standing tradition of responsible investment, and therefore will also likely aim to guide UPM strategy towards sustainable pathways. Sustainability and ethical conduct are brought forward strongly in both of the companies' annual reports.

Typically, annual reports give an optimistic review of the companies' performance and commitment to sustainable development and CSR. These statements should however be taken with a grain of salt, as many sources report unethical or unsustainable practices from the companies. In 2023 UPM was criticized for unethical logging and greenwashing in Finland and abroad (Aromaa, 2023; Liimatainen, 2023; Löf & Kotivirta, 2023). Stora Enso has been heavily criticized for its unethical behavior in China, Brazil and Uruguay (Helsingin Sanomat 2013; Yle 2018; 2022).

Although the evidence on unethical conduct is mounting, both companies hold a good reputation among investors, who seek to invest in sustainable companies. As pointed out by interviewees, and supported by earlier research (Brown et al., 2006; Mansell 2013; Pergendler 2016) it can be assumed that growing involvement of new financial actors in the case companies, and in the forest sector in general, can further limit companies' ability to commit to CSR and to deliver long-term ecological sustainability in the forest sector.

According to the research findings, it appears that both case companies view innovation as a critical component of their success and is something that positively influences especially the Finnish governmental and institutional investors' decisions to invest. Therefore it may be assumed that contrary to some previous research (Stout, 2013; Gunnoe, 2015) the companies hold a strong focus on R&D, despite growing pressures to maximize shareholder value. A recent study from Skyrman (2022) found that Stora Enso

doubled its R&D expenditures in the 2010's. Stora Enso has been the forest industry leader in its research capacity (Skyrman, 2023) which can partly be explained by its large governmental ownership who expect long-term strategic orientation from the company, as was found in this research. According to Skyrman, UPM on the other hand has externalized its R&D functions, which means their internal innovative capacity has decreased. In the light of the results of this study, this is not unexpected due to UPM's growing foreign influence, and pressure to deliver faster revenues for shareholders. As a sector, the forest industry devotes less resources to R&D than other industries (Skyrman, 2022).

A recent article in *Fortune* by Rubin (2023) described how major financial institutions, including BlackRock and Vanguard, are altering their stance on ESG investment strategies by increasingly rejecting shareholder proposals centered on environmental and social issues. In 2023, Vanguard reported a decline in the approval rate of environmental and social resolutions by shareholders down to 2% from 12% the previous year, aligning with BlackRock's trend of rejecting a significant number of climate and social-related items. Both institutions have previously exhibited strong support for ESG investing.

The sudden downturn raises concerns whether it will be a larger trend among financial institutions. Following the shareholder theory (Rapport, 1986; O'Connell and Ward, 2020), commitment to ESG and CSR can limit shareholder value maximization, and hence financial institutions might resign from these metrics. In the light of this study, the trend could negatively affect long-term sustainability of the forest sector. It also raises questions on the core emphasis of financial institutions. For investors who seek value maximization, ESG, despite its social and environmental merits, can introduce complexity that investors typically prefer to avoid, yet a sector that relies on natural resources has high expectations to operate in a socially and environmentally responsible manner (Laaksonen-Craig, 2004).

## **7 Limitations of the study and opportunities for future research**

The selection of UPM and Stora Enso for this case study was based on multiple factors. Finland has gained recognition for its exemplary performance in sustainable development, characterized by its adherence to high standards and commitment to social and ecological sustainability (Toivanen, 2021), making Finnish forest companies attractive for investors looking for sustainable companies to invest in. The examination of the global operations of Finnish forest companies is both fascinating and relevant; despite its relatively small size, Finland holds significant global importance within the forest industry (Toivanen, 2021), and hence it is important to uncover who invests, and with what motivations, to the industry.

The study's limitations involve the utilization of only two case companies, however, I argue that the research method I employ (open source data on shareholders combined with expert interviews), can be generalized and this research can later be expanded to apply multiple cases also in other geographical locations and sectors of industry. Additionally, the selected case companies have operations in numerous countries around the world, making them important, and influential, at a global scale. Each case company has unique qualities that set it apart from the other. For example, UPM is a publicly owned business, whereas a sizable portion of Stora Enso is controlled by the Finnish government. These distinctions will add intrigue to the case, and the study's scope includes governmental, and international ownership in addition to national private ownership. Due to these factors, I consider the scope of this research to be feasible for a master thesis project.

The scope of this study presents another limitation. It is recognised that there are many different approaches to studying financialization, including examining for example a company's asset structure and revenue sources. However, in order to examine the hypothesis that financialization has increased institutional ownership and shareholder value maximization, this study primarily focuses on changes in ownership structure. The study can be expanded to investigate the other indicators of financialization.

The effect of financialization on organizations' CSR performance is an important aspect and has been considered in this study, but only theoretically. Previous studies have made the assumption that increasing shareholder engagement restricts a company's ability to engage in CSR (Brown et al., 2006). Based on earlier work, and data analyzed in this study, it is possible to draw tentative conclusions. However, whether the hypothesis is correct should be investigated in a future study because it is outside the scope of this one.



## 8 Conclusion

This study argues that the interlinked processes of globalization and financialization have increased forest companies' tendency to aim for shareholder value maximization as a strategic goal in the past three decades. By applying shareholder theory, the study examines changes in ownership composition of two globally influential forest companies, UPM and Stora Enso. Further, by utilizing interview and open-source data such as annual reports and AGM notes from both case companies, and from shareholders, this study shed light on the developments of fiscal policies the case companies have adopted, and the versatile motivations different shareholder groups have towards investing in the forest sector. To conclude this study, this chapter answers the three research questions posed in the beginning of the study.

### 8.1 Changes in the shareholder structure

In both case companies, foreign ownership has increased significantly in the past 3 decades. UPM's foreign ownership has grown from 37% in 1996 to 68.1% by the end of fiscal year 2022. Meanwhile, domestic financing institutions and insurance companies have reduced their shares in UPM: in 1996, domestic financial institutions owned 21% of UPM; by 2022, that number had dropped to just 3.6%.

For Stora Enso, foreign ownership increased from 32.3% in 1999 to 55.7% in 2022. Moreover, ownership has concentrated to fewer but larger foreign investors: the number of foreign owners has decreased from 1.3% of all shareholders to 0.8%. When looking at voting power, Finnish institutions represent the largest owner sector having 45% of voting power by the end of 2022, while foreign shareholders' voting power in Stora Enso was 21.3%.

These developments are explained by both companies' aggressive entry to global markets in the end of 1990's. Based on changes in ownership structures, globalization has taken place in both companies' ownership structure and it is not self-evident

anymore who gets to influence strategic decisions within both companies. However, Stora Enso being a partly government owned entity, globalization and financialization has had less impact on the ownership structure.

68.1% of UPM's shareholders cannot be tracked down due to them investing through nominee banks. This poses questions on how UPM can commit to long-term sustainability and good social and ethical conduct, when the majority of shareholders are unknown foreign owners. Due to the shareowner structure of UPM, it is difficult to assess who actually benefits from the strategic decisions of UPM. Drawing from previous studies, it can be assumed that the growing proportion of foreign ownership in both cases could mean two things: first, financialization has taken place and has impacted the ownership structure; second, the companies are facing increasing pressure to maximize value for shareholders.

The interviewees pointed out that Finnish investors place a high value on the Finnish forest sector and choose to invest in long-term sustainability. This long-term commitment and trust towards the forest sector was also seen in the stagnant share of domestic households, which barely changed from the 1990's to 2022.

In the case of Stora Enso, voting power has remained in the hands of domestic shareholders due to governmental investor Solidium. As an integral component of its strategic approach, Solidium actively seeks to secure a board seat in Stora Enso's Board of Directors. Furthermore, the company aspires to attain the position of the most substantial shareholder in corporations for which it holds long-term interest. They aim to prevent opportunistic acquisition offers from being accepted, thereby contributing to keeping the corporate headquarters in Finland (Solidium Annual Report 2023). The profits generated by Solidium are subject to distribution by the government of Finland. Consequently, it is the State of Finland that determines the allocation of these revenues, guided by its overarching political and economic objectives.

Stora Enso has a policy to pay 50% of earnings per share (EPS) as dividend, an increase of 10% from 1999 when the company paid as dividends 40% of EPS (Stora Enso Annual

Reports 1999 and 2022). UPM aims to pay at least half ( > 50%) of EPS as dividends in 2022, whereas in 1996 their policy was to pay one third (33%) of EPS, indicating a rise of 17%. In 2023, UPM will pay 49% of ESP as dividends (UPM Annual Report, 2022). Hence, in both cases the dividend payouts have increased significantly. This could be linked to increased foreign ownership, and a tentative conclusion can be made that globalization of the companies has increased pressure for higher dividend payouts, also following the theory on financialization. However, based on this study, a definite link cannot be drawn and these results remain speculative.

## **8.2 Influence of the significant shareholders in UPM and Stora Enso**

The most influential shareholders in both companies are primarily institutional investors. These include major global investment firms like BlackRock and domestic entities such as Solidium, Varma, and Ilmarinen. Their influence is not just based on the size of their holdings but also on their active engagement in corporate governance, strategic decisions, and sustainability initiatives through annual general meetings. According to the analysis, the presence of these influential shareholders has steered the companies towards long-term, sustainable strategies, emphasizing innovation, diversification, and responsible forest management.

Due to the structure of the shareholder engagement platform in Stora Enso, the two largest shareowners Solidium and Fam hold significant power over strategic decisions. Similarly in UPM, The Board of Directors, which is responsible for setting the company's strategic objectives and reviewing investment decisions, is elected by the shareholders, giving significant power to the largest shareholders.

### **8.3 Shareholders' motivations**

Based on interviews and annual reports of the largest investors of the case companies, this study identifies four main motivations to invest in the forest sector. First, the forest sector offers a unique opportunity for portfolio diversification due to its low correlation with traditional asset classes. This characteristic, combined with the inherent value of timberland and its long-term appreciation potential, promises stable returns for investors.

Second, with the growing emphasis on ESG principles in the investment landscape, companies that hold sustainable forestry practices in the center of their focus, like UPM and Stora Enso, become attractive. Their perceived commitment to carbon sequestration, biodiversity conservation, and renewable resources aligns well with the values of modern investors.

Third, the continuous technological advancements in the wood industry and the emergence of innovative wood products, such as biofuels and green chemicals, present growth opportunities. Investors are motivated by the potential of these innovations to drive future profitability.

Fourth, the forest sector has strong positioning in the global market, with a focus on sustainable solutions and a diversified product portfolio. Both UPM and Stora Enso are good examples of this and have strategically positioned themselves. Their global presence and commitment to innovation make them attractive investment options for shareholders seeking long-term growth.

### **8.4 Theoretical contribution and final remarks**

The theoretical contribution of this study lies in its analysis of the interconnectedness between globalization, financialization, and shareholder dynamics within the Finnish forest sector. This study integrated multiple existing theories to create a more

comprehensive and nuanced understanding on evolving shareholder structures in context of global economic trends. The study extended the shareholder theory by emphasizing the links to globalization, financialization and CSR, and provided evidence on the interlinkedness of these separate theories. Moreover, the findings of this empirical research supports and validates the existing theories, improving their accuracy and applicability.

Most importantly, the study offers new insights into how Finnish forest companies navigate the complex interplay of investor expectations and sustainable practices, thereby contributing to a deeper understanding of how global trends influence the structures and strategies in the forest industry. Finally, this study contributes to the literature on financialization, particularly within the unique context of Finland's globally significant forest sector.

This research highlighted the significant changes in the ownership structures of both case companies, with foreign ownership increasing substantially over the past three decades. The rise in foreign ownership suggests the influence of financialization and the growing pressure on companies to maximize shareholder value, especially given the differences in objectives between domestic and foreign institutional investors. In the context of shareholder influence, the research finds that both UPM and Stora Enso have structured platforms for shareholder engagement through Annual General Meetings (AGMs). The influence of shareholders, particularly foreign institutional investors, varies, with different mechanisms in place for board appointment and remuneration decisions. The research observes changes in dividend policies over time, with both companies increasing their dividend payouts, potentially in response to greater foreign ownership and global market pressures, although a definitive link remains speculative.

In summary, this study reveals that the effects of globalization and financialization differ between the two case companies. Stora Enso, partly government-owned, is less impacted by financialization compared to UPM, which has experienced a notable increase in foreign ownership at the expense of domestic institutional ownership. These findings emphasize the evolving dynamics within the forest industry, driven by

globalization and financialization, and their influence on shareholder strategies and company ownership structures.

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