



Center for Paper Business and Industry Studies

Newsletter of the Center for Paper Business and Industry Studies

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TBF Coming Soon

This year's TechnoBusiness Forum (TBF) will take place in Atlanta on September 25-26, 2007, at the Georgia Tech Hotel and Conference Center on the campus of the Georgia Institute of Technology. The Forum is sponsored by the Institute of Paper Science and Technology and the Center for Paper Business and Industry Studies. Tom Brown, former CEO of Carastar Industries will serve as Moderator of the TBF, which will focus on Enterprise Transformation. The Forum's innovative program includes participation by CEOs from both within and outside the Forest Products Industry, leaders of the only two North American Centers focused specifically on Enterprise Transformation and senior members of the highly regarded Sinclair Group.

For the TBF Brochure and Agenda, see:

http://www.cpbis.gatech.edu/news/2007_Techno_Business_Brochure.pdf

and

http://www.cpbis.gatech.edu/news/2007_Techno_Business_Agenda.pdf

Value Metrics, and ECO

One of the CPBIS-hosted sessions at TAPPI's Engineering, Pulp and Environmental Conference (Jacksonville, Florida, October 21-24, 2007) will feature two significant papers by Weyerhaeuser's Dr. Perry Parthasarathy. The titles are "Financial and Value Metrics Based Performance Evaluation of North American Pulp and Paper Companies and Identification and Adjustment of Deficiencies to Compete in the Global Market Place" and "Equity Carve-Out (ECO) as a Financial Instrument for Corporate Restructuring -- Will It Work for the Pulp and Paper Industry?"

The abstracts are reproduced below. The session will be at 8:30 a.m. on Tuesday, October 23, and will be chaired by Dr. Colleen Walker of CPBIS.

"The performances of 27 of the 39 largest North American Pulp and Paper Companies are evaluated based on certain financial and value metrics. Since only a company's historical growth and returns on capital – not its future performance – can be measured directly, the potential for future growth and returns must be inferred. To do so, it is necessary to devise metrics that can gauge not only the short-term performance but also the long-term health of the companies. A company on a short term may show strong growth and returns on capital, but health metrics are needed to determine if that performance is sustainable. Using information available in the public domain space, an attempt has been made in this paper to evaluate not only the current financial performance of the companies but also to forecast their long-term growth sustainability. The financial metrics used are: Operating Profit Margin (OPM), Net Operating Profit Less Adjusted Tax (NOPLAT), Return on Equity (ROE) and Return on Investment (ROI); each metric is weighted by its relative importance to performance evaluation. The value metrics used are: the ratio of Economic Return to Total Invested Capital (ER/TIC), the ratio of Economic Value Added to Total Capital (EVA/TC), the ratio of Market Value Added to the Market Value of Equity (MVA/MV of Equity) and the ratio of Shareholder Value Creation to the Return on Capital (SVC/CR). Value metrics are also weighted according to their relative importance to the evaluation to the performance of companies. The objective of the study is to forecast the Future Free Cash Flow (FFCF) of a company by using historical financial performance data and then to use the FFCF

to conclude the sustainability and long-term viability of these companies.”

“Equity Carve-Out (ECO) as a financial instrument for corporate restructuring has been practiced by many companies in other sectors but seldom in the pulp and paper industry. The two financial instruments available for corporate restructuring and value enhancements are spin-offs (SO) and ECO. Unlike pure spin-offs, ECO gives the parent company the best of both worlds. The parent company has a major stake in the carved-out entity, thus realizing the benefits that the entity’s performance brings; the entity with its own CEO and board and corporate governance can set policies independent of the parent corporation, raise its own equity for future growth. Between 1996 and 2000, 96 out of the 118 carve-outs (that is >80%) provided enhanced market capitalization for the parent companies at an annual rate of more than 9%; however, the performance of the ECOs between 2001 and 2006 is not stellar, though they did provide a smaller gain in market capitalization for the corporate parent. In this paper, the fundamentals of ECO within the confines of Myers and Majluf framework are discussed and its relevance to the pulp and paper industry analyzed.”

Remember, too, that on Monday morning, October 22, CPBIS will present its “State of the Industry” address. This has become a regular session at TAPPI conferences, featuring an up-to-the minute snapshot of the industry’s current, recent and projected performance, all in the context of a rapidly changing environment.

Empowering Workers is Tricky

This according to CPBIS researchers Chuck Parsons and Raul Necochea, whose article in the July/August issue of PaperAge expands on the statement. As researchers studying organizational behavior and human resource management, the authors were interested in how effectively the paper industry is implementing high performance work systems (HPWS), which they describe as work systems that maximize the fit between the social and technological aspects of the workplace. Accordingly, they conducted two case studies and developed an industry survey of paper machine operating crews to evaluate the prevalence and efficiency of HPWS.

In one mill, conflict occurred between management and workers over an issue that would have been strictly a management prerogative in a traditional mill. Under HPWS, the resolution could not be a unilateral management decision. Instead the strategy adopted

involved the creation of another forum for worker involvement.

In the second mill studied, a gain-sharing program was instituted, and a degree of self-directedness was encouraged for workers. One manager credited monetary incentives like gain-sharing with the successful cooperative culture found within the mill. Nevertheless, in this case, as in the first one, some managers continue to struggle with their lack of authority.

Both cases point out the different role and expectations of managers in a HPWS setting. It is often stated that the training needs are high for workers in such settings, but the same would appear to hold true for managers, especially those who have worked in a more traditional setting.

For more information on the case studies, and for details of the survey and its results, see the article in PaperAge. Chuck Parsons can be contacted by e-mail at charles.parsons@mgt.gatech.edu and Raul Necochea at raul.necochea@mail.mcgill.ca

Upcoming Events

2007 CPBIS/IPST Forest Products Techno-Business Forum, “Market Dominance Through Enterprise Transformation,” September 25-26, Georgia Tech Hotel & Conference Center, Atlanta, Georgia.

CPBIS Board of Executives Meeting, Sept 27, Atlanta,

CPBIS-PIMA Management Development Program, “Management Development for Enhanced Performance,” Global Learning Center, Georgia Tech, Oct. 8-12, 2007.

TAPPI EPE Conference, Jacksonville, FL, October 21-24 ■