

## West Fraser Timber Co.:

### Corporate Social Responsibility and Managing Reputation

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#### Organizational Background

West Fraser Timber Co. (n.d.-a) is a Canadian manufacturer of wood products that are marketed and sold worldwide. It is a leading diversified wood products company and “one of North America’s largest lumber manufacturers with 45 facilities in British Columbia, Alberta and the southern U.S.” (West Fraser Timber Co. Ltd., n.d.-a, para. 1). It is an established leader in manufacturing innovation and high-efficiency wood product production (West Fraser Timber Co. Ltd., n.d.-a). West Fraser Timber Co.’s organizational goals are to develop and maintain employee excellence, industry leadership, community responsibility, profitability and growth (West Fraser Timber Co. Ltd., n.d.-c).

In 2019, West Fraser Timber Co.’s product sales were \$4.9 billion (West Fraser Timber Co. Ltd., n.d.-b). Its total capital was \$3.5 billion, “including \$663 million in long-term debt and \$2.5 billion in total shareholder equity” (West Fraser Timber Co. Ltd., n.d.-b). Although this company has seen considerable financial success, West Fraser Timber Co. certainly has room for improvement when it comes to corporate social responsibility.

#### SWOT Matrix

<b>Strengths:</b>	<b>Weaknesses:</b>
<ol style="list-style-type: none"><li>1. WFT stock is a good long-term investment (Simply Wall Street, 2020).</li><li>2. WFT stock is resilient to market turmoil (Simply Wall Street, 2020).</li><li>3. Acquisition of Norbord Inc. and OSB (Sarkar and Krishna, 2020).</li></ol>	<ol style="list-style-type: none"><li>1. Inadequate environmental sustainability mission (West Fraser Timber Co., n.d.-c).</li><li>2. Logging industry under criticism for carbon emissions (Oregon Wild, 2014).</li><li>3. Still performs controversial harvesting practices like clearcutting (West Fraser Timber Co., n.d.-e).</li></ol>

<b>Opportunities:</b>	<b>Threats:</b>
<ol style="list-style-type: none"><li>1. Increased demand in wood products after onset of COVID-19 (Paul, 2020).</li><li>2. Technology improvements for application of wood products (Miller, 2019).</li><li>3. High demand expected to continue (Paul, 2020).</li></ol>	<ol style="list-style-type: none"><li>1. Environmental activism shifting focus to forestry industry (Oregon Wild, 2014).</li><li>2. Frequent wildfires threaten supply (Leonard and Freedman, 2020).</li><li>3. Industry contributions of carbon emissions exacerbate climate change which accelerates natural wildfires (Oregon Wild, 2014).</li></ol>

### **Strengths**

West Fraser Timber Co. has shown significant financial potential on the Toronto Stock Exchange. Simply Wall Street (2020) indicates that West Fraser Timber Co. has been profitable over the past five years as shareholders enjoyed a 35 per cent rise in share price. The forestry stock (WFT) has proven to be rewarding for long-term investors, even amid the market turmoil COVID-19 inflicted in 2020 (Simply Wall Street, 2020). Although shareholders only gained 20 per cent with dividends in the last year, West Fraser Timber Co. shows signs of momentum and corporate sustainability (Simply Wall Street, 2020). Hobson (2020) argues that WFT is a good quality stock which has relatively inexpensive value based on its earnings yield. A reasonable earnings yield is typically around five per cent; West Fraser Timber Co.'s is 12 per cent as of November 2020 (Hobson, 2020). Market Beat reports that WFT was trading at \$36.40 on March 11, 2020 when COVID-19 was declared a pandemic by the World Health Organization; "since then, WFT stock has increased by 104.2 per cent [to] \$74.33" (Market Beat, 2020). The wood products company has proven to be resilient in a crisis, even one as tumultuous as COVID-19.

Additionally, Sarkar and Krishna (2020) report that West Fraser Timber Co. struck a deal in November to buy its rival Norbord Inc. in an all-stock deal worth \$4 billion. The deal enables West Fraser Timber Co. to be consistent with stating the whole name or an acronym,

and don't switch to expand its market to Europe and diversify its product portfolio . Norbord Inc. is the world's largest manufacturer of oriented strand board (OSB), an engineered wood that is particularly high in demand (Sarkar & Krishna, 2020). The combined business of West Fraser Timber Co. and Norbord Inc. "should see less earnings volatility as lumber and oriented strand board have different peak and tough cycles" (Sarkar & Krishna, 2020). This is a very positive addition to West Fraser Timber Co.'s portfolio in the eyes of potential investors.

### **Weaknesses**

The United Nations Industrial Development Organization defines corporate social responsibility as a "concept where companies integrate social and environmental concerns in their business operations and interactions with stakeholders" (para. 1). Additionally, Verčič and Čorić suggest that corporate social responsibility has a lot to do with reputation management, one of the most important tools for maintaining an organization's legitimacy. West Fraser Timber Co. has what feels like an obligatory environmental sustainability statement on its website, and its mission statement and foundational principles are primarily aligned with economic success and employee excellence (West Fraser Timber Co., n.d.-c). These are positive values and goals to have, but corporate social responsibility regarding environmental sustainability should be at the forefront of West Fraser Timber Co.'s goals. Oregon Wild discusses carbon emissions released by the forestry industry at length. For companies like West Fraser Timber Co., carbon emissions have a large impact on reputation as environmental activists around the world campaign for better management practices.

As Verčič and Čorić argue, positive reputation is one of the most valuable intangible assets an organization can possess. West Fraser Timber Co. still uses clearcutting as a harvest method (West Fraser Timber Co., n.d.-e). Oregon Wild claims that clearcutting is "incompatible with climate mitigation and other public values" (p. 1). Considering West

Fraser Timber Co. does not currently meet an adequate standard of corporate social responsibility, their basic messaging and mission statement should at least reflect an intention to do better.

### **Opportunities**

While COVID-19 has generally had a negative impact on the economy, it has presented the forestry industry with a unique opportunity. Paul reports that skyrocketing lumber prices are a result of a dramatic increase in demand that the industry is only just beginning to take advantage of. Many people began home renovation and remodelling projects during lockdown, which happened to coincide with construction projects that usually begin in the spring (Paul, 2020). Unfortunately, most companies in the industry were not in a position to take advantage of the situation due to prior supply setbacks. Paul reports that it took a while for production to keep up, but the fundamentals of supply and demand are expected to remain fairly good for a while. If West Fraser Timber Co. plays its cards right, this is a huge opportunity to increase sales with the newfound demand.

Another opportunity for West Fraser Timber Co. can be found in technology developments for further applications of wood products. Miller argues that Canada's forestry products sector will play a large role in reshaping the industry's future. Wood products are now being used as base materials for tall buildings and are an important component of the nation's fuel supply (Miller, 2019). Most impressively, bioplastics made from wood are being used to make things like airplanes and product packaging. As more developments are made, there are more opportunities for West Fraser Timber Co. to add to its product portfolio and change the future of wood products.

### **Threats**

Environmental activists are turning their attention to the forestry industry's carbon emissions, making for a notable threat to West Fraser Timber Co.'s current operations.

Oregon Wild claims that forest logging exacerbates climate change by emitting millions of tons of carbon dioxide into the atmosphere. Forests play a crucial role in the global carbon cycle (Oregon Wild, 2014). Logging stops trees from growing which accelerates the transfer of carbon to the atmosphere, contributing a substantial fraction to the excess carbon dioxide in the atmosphere. Environmental activists argue that “the solution will require changed management practices in every industry that affects the carbon cycle, including forestry” (Oregon Wild, 2014, p. 1).

The industry’s contribution of greenhouse gas emissions also accelerates global warming and natural wildfires, which is certainly bad for business. Leonard and Freedman discuss studies that document an increase in large wildfires due to global warming. Experts agree that the only way to slow wildfire frequency and prevent total climate disaster is to significantly reduce the levels of greenhouse gas emissions being produced (Leonard & Freedman, 2020). West Fraser Timber Co. confirm that the major volumes of forest taken by wildfires has created significant challenges for maintaining appropriate supply levels. Additionally, Paul cites wildfires as one of the major factors that contributed to the industry’s financial hardships in the last decade.

### **Recommendations**

West Fraser Timber Co. could benefit from public relations consultation and better reputation management. While its financial strengths carry its overall success as an organization, stronger corporate social responsibility efforts would preserve important stakeholder relationships and its overall reputation with general publics. The organization should put more effort towards the reduction of carbon emissions and sustainable harvesting methods. Additionally, an updated mission statement that reflects clear environmental values would go a long way with environmental activists’ perception of West Fraser Timber Co.

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