ORGANIZATIONAL DEVELOPMENT AND CHANGE AT LVM

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Head of Development
AS Latvijas valsts meži
Forest Management Principles

NATURE

SOCIETY

ACCEPTABLE

FAIR

SUSTAINABLE

VIABLE

ECONOMY
Company Overview

- Founded in 1999
- Manages 1.62 million ha
- JSC «Latvijas valsts meži» (LVM) «Latvia’s State Forests» pursue state interests in forestry by sustaining and increasing the forest value, while gaining maximum possible value from forest management
- One of Baltics’ leaders in efficient and innovative forestry

Source: LVM
Forests Managed by LVM
Our Business Areas

- Silviculture
- Forest Infrastructure Development
- Hunting and Recreation
- LVM Real Estate
- Forest Seeds and Plants Production
- Roundwood Production & Supply

Source: LVM
Organizational Structure

Shareholder’s meeting

Management Board

President

Corporate Management

Departments

- LVM Forestry
  - Silviculture
  - Roundwood Supply
  - Forest Infrastructure

- LVM Seeds and Plants
- LVM Real Estate
- LVM Recreation and Hunting

Related companies

- Forest and Wood Products Development Institute (40.22%)
- Jaunmokas Castle (100%)
### JSC «Latvijas valsts meži» Background

<table>
<thead>
<tr>
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<th>2012</th>
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<tbody>
<tr>
<td>Net turnover (million EUR)</td>
<td>253.4</td>
</tr>
<tr>
<td>Profit before tax (million EUR)</td>
<td>62.2</td>
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<tr>
<td>Net profit (million EUR)</td>
<td>54.9</td>
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<td>Return on equity (ROE)</td>
<td>17.8%</td>
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<td>Volume of wood sales (million m³)</td>
<td>6.04</td>
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<tr>
<td>Area managed (million ha)</td>
<td>1.62</td>
</tr>
<tr>
<td>Forest area (million ha)</td>
<td>1.4</td>
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Source: LVM Corporate Management
LVM Turnover

Source: LVM Corporate Management
LVM Profit After Taxes

Source: LVM Corporate Management
LVM Contribution to Government and Municipal Budgets

- Real Estate tax
- Enterprise Income tax
- Payment to state for use of state capital
- State Social Insurance Mandatory Contributions and Personal Income tax
Upon establishment in 1999, LVM has a strong regional presence – all functions in the forestry cycle are planned, executed and controlled regionally. Majority of corporate support and admin functions found in the region. Strong management in the regions ensures local representation. Weaknesses – inconsistent business process execution, limited control, poor division of roles and responsibilities.
Shortly after its foundation, LVM spins off the Seed and Plants business unit (as an administratively autonomous unit, not as a separate legal entity). Advantages – specialization for a part of the business that is not closely integrated in the day to day forest management processes. Opportunities to scale manufacturing and enter foreign markets.
LVM Recreation and Hunting is the next to evolve as a separate business unit.
As the offered product portfolio broadens to include not just standing trees, but also roundwood, the Roundwood Supplies business unit is created. It focuses on roundwood manufacturing, logistics and delivery to the client. Standing tree sales remains with the Regional Management structure, as does environmental and territory planning.
Forest Infrastructure is responsible for roads development and maintenance. Through specialization, engineers with competence in infrastructure issues are retained.
LVM Real Estate focuses on acquiring, transforming and managing property and developing quarries for support of infrastructure development. The Regional Office becomes LVM Forestry – focusing on the forest management cycle, environmental planning and management, and management of recreational, cultural and historical sites to meet the needs and interests of society.
With increasing specialization, job definitions become more precise, roles and responsibilities more clear. However, regional communication becomes increasingly complex, resulting in a high level of bureaucracy between the regional office and head office. Steps within the forest management process are executed separately, with limited integration and coordination.
With increasing specialization, support functions (human resources, legal, accounting, information systems support and others) become increasingly decentralized. Differing models are used in the various business units, for example, direct, administrative reporting to process and/or regional managers; or process management from the head office with execution in regional sites.
At the start of 2011, the LVM Forestry business unit is created, replacing the previous LVM Forestry, LVM Roundwood Supplies, and LVM Forest Infrastructure. The new LVM Forestry covers the entire forest management operational cycle – from planting through harvest and delivery.
Regional management (Regional Director) works in a matrix structure, directly reporting in the LVM Forestry Director, as well as the Process Owner for forest management. The Regional Director is responsible for ensuring a cohesive regional team, that meets certification objectives and represents LVM in a competent, proactive fashion in local municipalities and the community as a whole.
Beginning in 2011, corporate management and support functions are evaluated and increasingly centralized, with policy and tactical management located in the head office, with, where necessary, administrative support located in the regional office.
LVM is poised for improved teamwork among regional process leaders and staff, with support from the Regional Director for local problem escalation, and strong policy and process guidance from the head office.
As the handoffs among regional process leaders become more effective, and the communication processes between the head office and regional offices improve, the LVM team moves ahead to meet its new challenges.
Organizational life cycle

- **Infancy**
  - Infant mortality
- **Courtship**
  - Affair
- **Go-go**
  - Founder trap
- **Adolescence**
  - Divorce
- **Prime**
  - Premature aging
  - Unfulfilled entrepreneur
- **Aristocracy**
- **Early bureaucracy**
- **Bureaucracy**
- **Stable**
- **Death**
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DIVERSIFICATION

Wood products
- Standing forests
- Roundwood
- Deliveries

Wood chips and related energoresources

Plants and seeds
- Plants
- Plants with fortified root systems
- Treated plants

Other natural resources – quarries, dolomite, sand, gravel
MANAGEMENT TOOLS

Strategic planning systems
  balanced scorecard principles, cascading goals
  transition from bottom-up to top-down planning processes
Process management and certification
Benchmarking
Insourcing of critical IKT development functions
Centralization of support functions
Portfolio, programme and project management
Focus on leadership, not just administration/management
Leadership commitment
Redefinition of management team
Change management as a skill for all levels of management
Continuous process improvement
Coordination with our partners

Training and education
Competency development
Proactive innovation management
Communication across regions, across functions, across management levels

Training
Process improvement
IT support
Challenges

Increasing costs
Stable prices of core business products
Limited volumes of core business product – sustainability

Changing framework
LVM priorities 2015+

- Action
- Effectivity
- Quality
- New products
THANK YOU!