The Development of Equity Ratios for Firms in the Swedish Industry for Wooden Single-Family Houses.

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ABSTRACT: On the Swedish market for single-family houses, wood traditionally dominates with around 90% market share. Due to the economic crisis, the number of prefabricated wooden single-family houses decreased from about 12 100 units in 2007 and 2008 to 4 800 units in 2012 before the market recovered. Firms in the industry struggled with a 60% decrease of order intake. These firms compete with relatively low margins and many faced economic losses. Such losses negatively affect the firms’ equity ratio, describing the firms’ financial strength, or the share of assets that are financed by own capital. This negative effect defines the firms’ long-term ability to pay their debts. The longer such an effect lasts, the more it threatens the firms’ future, potentially leading to bankruptcy.

This study is aiming at studying the development of the financial strength in terms of equity in relation to the capital employed (ERCE), from 2005 to 2014, for Swedish firms producing wooden single-family houses. For that purpose, the firms were classified based on their market shares. The firms’ annual reports and the required financial numbers were collected and analyzed.

The results show that the average financial strength for the whole industry is almost at the same level in 2014 as it was in 2005; yet, firms with larger market shares lost and firms with smaller market shares gained financial strength. Further, firms with larger market shares chose to build up untaxed reserves to balance threatening losses, when they realized the threat of declining order intakes.

KEYWORDS: Wooden single-family houses, financial strength, equity ratio, market share, concentration rate.

1 EQUITY RATIO AS KEY NUMBER

The evaluation of firms for various purposes is often performed by financial key numbers. Such key numbers can allow for inter and intra industry comparison, as well as for evaluating firms of different sizes or departments within a firm [1]. In financial analysis, the key number “equity ratio” is a well-known measure for a firm’s financial strength [1]. It is often used to evaluate a firm’s ability to pay its long-term debts. Basically, a firm’s equity ratio shows the relative proportion of that firm’s total assets that is financed by its own equity [2]. By definition, the rest of the firm’s total assets are financed by debts. Here, equity includes (1 – tax rate) of the firm’s untaxed reserves. These are periodic funds with profits that the firm did not pay tax for yet, but will, the day the firm liquidates the funds. The current tax rate in Sweden, and hence used in this study, is 26.3%, which means that 73.7% of a firm’s untaxed reserves are included in the displayed equity. Referring to the above, the equity ratio, in relation to total assets (TA), can be calculated according to Equation (1) [2]:

\[
\text{Equity Ratio}_{TA} = \frac{\text{Equity (incl.73.7% untaxed res.)}}{\text{Total Assets}}
\] (1)

Firms with a relatively high equity ratio consequently have fewer debts, which means they have less bounded payments like interest rates and amortizations. This in turn allows for a higher degree of freedom in how to use the firm’s capital [3].

At the end of each fiscal year, a firm’s profit increases its equity. On the other hand, a loss decreases the equity. Thus, a high equity ratio shows the firm’s financial strengths, since phases of weak economic or business cycles can be endured due to the equity being a financial buffer [3]. A firm with a relatively high equity ratio could for example invest in its business and resist early losses easier, compared to a firm with a weaker equity ratio [4]. Hence, a high equity ratio is advantageous even in loan negotiations with banks, since potential losses first of all

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would be covered by the firm’s equity. Simultaneously, a low equity ratio will act as a warning signal [5].

A firm’s debts include short-term liabilities, e.g. from suppliers, which are non-interest-bearing and thus should be taken advantage of by the firm. These liabilities can vary to a large extend, e.g. depending on incoming orders, time of the year, raw material prices at a certain time, etc. Thus, the value of those liabilities, as displayed in the balance sheet, only represents a reference date measurement. This could give a misleading picture when used to calculate key numbers. Since the equity ratio should show a firm’s ability to pay its long-term debts, i.e. debts that charge interest, only that capital employed should be considered when calculating the equity ratio, and not the non-interest-bearing short-term liabilities, see Equation (2) [2]:

\[
\text{Equity Ratio}_{CE} = \frac{\text{Equity (incl. 73.7% untaxed res.)}}{\text{Capital Employed}}
\]  

(2)

Here, the key number “capital employed” (CE) is not to be confused with “working capital”. Whilst the latter one comprises the difference between current assets and current liabilities, capital employed includes total assets less current liabilities.

As mentioned above, a firm’s equity ratio can be improved, if the firm generates profit. The same is true in case of shareholder contributions. The equity ratio degrades, on the other hand, if the firm’s business generates a loss during a fiscal year, and in case the firm takes new loans [6].

In what proportion should capital employed be financed by a firm’s equity? For private firms, e.g., the equity ratio should be higher than for public organizations [2]. A general rule of thumb says that the equity ratio should be between 30 % and 40 %, dependent on the risk level in the respective industry [3]. Yet, these numbers are mainly based upon analyzing Equity RatioTA and not Equity RatioCE.

Thus, some authors sound a note of caution. Firms within manufacturing industries generally bind a relatively large amount of money in their machinery, i.e. fixed assets. Hence, it is relatively more expensive for shareholders of a manufacturing firm to finance their whole business by own equity. This might allow manufacturing firms to have a lower equity ratio, e.g. compared to firms in industries using less fixed assets [2]. Therefore, the above stated rule of thumb for the equity ratio to be between 30 % and 40 % seems to be too high for manufacturing firms. However, considering Equity RatioCE instead of Equity RatioTA, it becomes obvious for mathematical reasons that the proportion of a firm’s equity in the Equity RatioCE is higher, since capital employed is calculated as total assets less current liabilities. The above describes elements of uncertainty, if a fair or appropriate level of equity ratio is to be determined to evaluate a firm’s or an industry’s financial structure.

Further, as capital employed is calculated as total assets less current liabilities, it is not self-evident to derive that a firm does not finance current assets by means of long-term debts. However, long-term debts should not be used for that purpose. Thus, to reduce risk, the value of a firm’s fixed assets should exceed that firm’s long-term debts [2], and be financed by either long-term debts or equity, i.e. long-term capital [1]. In case a firm would finance its fixed assets with current liabilities instead, their working capital would turn negative, potentially leading to liquidity problems.

This might indicate the size of a firm’s Equity RatioCE relative to its fixed assets, where firms with no to moderate fixed assets, relative to their industry competitors, might be more sensitive to a higher indebtedness than their competitors.

2 THE SWEDISH MARKET AND INDUSTRY FOR PREFABRICATED WOODEN SINGLE-FAMILY HOUSES

In Sweden, approximately 80 % – 90 % of all single-family houses are made of wood [7]. The vast majority of this proportion consists of prefabricated houses, i.e. offsite production is predominant. Between 2001 and 2007, the number of produced houses increased from 7 884 to 12 083 [8]; yet, this was before the economic crisis. The following years were characterized by an extreme downfall of the market. A successive decrease of incoming orders started in 2008 and hit rock bottom in 2012, where only about 4 800 houses were build [9].

During the described time period, an already existing housing shortage in Sweden became even worse [10]. In total, during 2009, about 15 000 housing units were produced. However, an increase by nearly 80 % to 26 925 units in 2010 followed by a decrease to 20 050 units in 2012 [13]. This negative development led to a situation, where a total of about 75 000 housing units per year are needed until 2020, in order to deter the shortage and be on track again [11]. Yet, in 2013, 2014 and 2015, 31 000 units, 48 000 units and about 53 000 units were build. This means that even though the market recovers, the shortage still increases [12, 13, 14].

Considering wooden single-family houses, the tendency of the corresponding market figures are comparable to the housing units in total. Whilst production was down at 4 800 units in 2012, 7 000 houses were reported for 2014 [15] and 9 350 for 2015 [16]. For 2016, between 10 000 and 11 000 houses are forecasted to be produced [16].

These numbers show the large market fluctuations, which firms in the industry had to master. A drop of about two-thirds in the direct aftermath of the financial crisis was
followed by an upswing of approximately the same magnitude. Related to that, the average turnover per employee as a proxy for productivity development in the industry at hand declined until 2012, see Figure 1.

![average firm productivity in SEK from 2010 to 2013](image)

**Figure 1:** SEK/employee for firms in the Swedish industry for offsite produced wooden single-family houses [17].

The depicted time period mirrors one part of the downfall. It could be shown, that changes in productivity were dependent on (i) changes in turnover and (ii) changes in number of employees [17]. About half of the investigated 48 firms did not lay-off employees during that time period; yet, considering the decrease in sales, firms had to balance their cost structure, in order to avoid or at least minimize losses. As losses reduce the firms’ equity, the consequences of the financial crisis thus could harm the firms’ equity and consequently their Equity Ratio\(_{CE}\), as presented in chapter 1. The same time, interest had to be paid for the long-term debts.

Figure 1 shows as well that from 2012, average productivity increased again, which coincides with the above described upswing on the market. Firms are producing more houses and are part of the plan to eliminate the existing national housing shortage. This means that the future demand of wooden single-family houses potentially could increase, since the number of total housing units needs to increase.

However, [18] showed that from 2010 to 2013, the amount of total assets in this industry decreased by 8 %. Equity Ratio\(_{CE}\) is based on capital employed, which in turn is calculated as total assets less current liabilities. If firms work less productive and have less booked total assets, it could be assumed that the fiscal years after the crisis closed with losses. This in turn would reduce the equity of the firms and consequently affect the firms’ Equity Ratio\(_{CE}\).

As described in Chapter 1, a high equity ratio shows the firm’s financial strengths. Due to that financial buffer, phases like the financial crisis can be rode out comparatively good [3]. In theories about Strategic Management and the Industrial Organization, market structure, or market power or share, often is associated with benefits, e.g. in terms of sales that influences profits [21]. Structure often is regarded as influencing decision making and conduct [22], which in turn is seen as affecting performance and profitability [23]. In [24], the structure of the industry at hand is explored, showing, e.g. that the accumulated market share of the five firms with the largest shares, CR\(_5\), decreased by 26.8 % from 2005 to 2014. Consequently, ceteris paribus, other firms must have increased their market share.

Market share is linked to sales and profits [21], and profit, or loss, respectively, affects the Equity Ratio\(_{CE}\) of a firm [3]. Hence, firms in the Swedish industry for wooden single-family houses might show differences in how their financial strength developed with respect to the financial crisis, depending on their market share.

### 3 AIM AND METHOD

In line with the above, the aim of this study is to investigate the financial strength of the firms in the Swedish industry for wooden single-family houses before, during and after the financial crisis, depending on their market share.

The chosen time period ranges from 2005, i.e. some years before the financial crisis, to 2014, i.e. some years after the market recovered from the downfall.

In line with the derivation in [19], a firm’s market share advantageously can be measured by means of that firm’s turnover. Further, the investigated firms are grouped by using the concentration ratio CR\(_n\), describing the n largest firms in terms of turnover \(x\) according to Equation (3):

\[
CR_n = \sum_{i=1}^{n} x_i
\]

Hence, CR\(_5\) includes the five firms with the largest market shares in the industry. In the same manner, CR\(_5\) comprises the five firms with the smallest market shares. In this study, the five largest and the five smallest firms were chosen according to the market situation in 2014, since these two groups of firms represent two extremes in terms of sizes of market share. If the firms’ financial strengths are connected to their market share, these two groups will show that association in all likelihood.

Financial strength is calculated as the Equity Ratio\(_{CE}\), according to Equation (2). The development of this financial key number is mapped during the investigated time period (a) as the average for the whole industry and (b) as separate numbers for CR\(_5\) and CR\(_s\).

To be included in the investigated sample, firms had to fulfill some requirements and pass some cut-off levels. Based on a list of firms from prior research [e.g. 19, 20], statistical online databases were used to consider firms that entered or left the industry of wooden single-family houses in Sweden. Here, the same criteria had to be applied, compared to the original list of firms, for instance size of firms. Even though some firms might not have had...
activities in some of the years relevant for this study, they were not excluded. This, since the respective firm’s Equity Ratio \( \text{ER}_{\text{CE}} \) contributed to how the average for the industry was characterized at the time, which is in line with the aim of this study. All relevant data, according to Equation (2), were collected from an online statistic database, where the firms’ balance sheets are available.

Results from industry studies can be delicate, especially in highly competitive markets as the one at hand. Firms could use the outcome in order to gain competitive advantage over rivals. Thus, since the authors’ institutions are engaged in various projects with different firms from this industry, no firm names are revealed in this study. Instead all firms are anonymous units of analysis.

4 DATA AND ANALYSIS

In line with the aim of this study, the investigated firms’ financial strength, measured by means of the \( \text{ER}_{\text{CE}} \), was calculated according to Equation (2). For the time period 2005 to 2014, i.e. before, during and after the financial crisis, the \( \text{ER}_{\text{CE}} \) was averaged out (\( \bar{\text{ER}}_{\text{CE}} \)). Additionally, year-on-year changes were calculated in percent (YoY). The corresponding data describes the situation for all firms in the industry (4.1), for the five firms with the largest market shares \( \text{CR}_5 \) (4.2) and for the five firms with the smallest market shares \( \text{CR}_5 \) (4.3). Finally, the described situations of the investigated three groups of firms are compared (4.4).

4.1 AVERAGE EQUITY RATIO FOR ALL FIRMS IN THE INDUSTRY

As Table 1 shows, \( \bar{\text{ER}}_{\text{CE}} \) ranged in an interval from 67 % in 2008 to 79 % in 2006. This means that in average, own equity accounted for more than two-thirds of the long-term capital that firms invest in their businesses. Yet, it means as well that the bottom was reached only two years after the peak occurred. During these two years, the ratio, and thus the average financial strength of the firms in the industry, worsened with almost 18 %.

This could be explained with the beginning of the negative business cycle. As described before, 12 083 wooden single-family houses were produced in 2007; yet, from then, the market collapsed. Even though produced quantities in 2008 are comparable with 2007, incoming orders started to lessen. The threat of falling earnings emerged, since eventual losses would burden the firms’ equity. Hence, firms had to adjust their businesses according to the occurring situation [17]. As decreasing orders consequent in lower current liabilities and thus, ceteris paribus, lower total assets, the firms’ capital employed falls. However, if the firms’ equity and capital employed declines, then \( \text{ER}_{\text{CE}} \) declines, if the firms’ equity decreases relatively more than the capital employed.

The firms’ attempts to adapt to the current business setting can be seen in the year-on-year changes from 2008 to 2012. No distinct development direction of the \( \text{ER}_{\text{CE}} \) can be observed, even though the trend of sales numbers was clear-cut. As the market hit rock bottom and the number of produced wooden single-family houses increased again, firms had the chance to recover and fortify their financial strength. This can clearly be seen in the year-on-year change from 2012 to 2013. Profits increased and added value to the firms’ equity to a larger extent, than the increase of orders affected the growth of the firms’ CE. Firms could increase their financial strength. In the end, during the investigated 10-years period, the \( \bar{\text{ER}}_{\text{CE}} \) for the industry developed in a way that ends at almost the same level where it was initially.

4.2 AVERAGE EQUITY RATIO FOR THE FIVE FIRMS WITH THE LARGEST MARKET SHARE

Regarding \( \bar{\text{ER}}_{\text{CE}} \) in the context of market share, the five largest firms \( \text{CR}_5 \) were studied and the results presented in Table 2.

<table>
<thead>
<tr>
<th>year</th>
<th>( \bar{\text{ER}}_{\text{CE}} )</th>
<th>YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>76%</td>
<td>0</td>
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<tr>
<td>2006</td>
<td>79%</td>
<td>4,4%</td>
</tr>
<tr>
<td>2007</td>
<td>76%</td>
<td>-3,9%</td>
</tr>
<tr>
<td>2008</td>
<td>67%</td>
<td>-11,1%</td>
</tr>
<tr>
<td>2009</td>
<td>74%</td>
<td>9,2%</td>
</tr>
<tr>
<td>2010</td>
<td>68%</td>
<td>-7,4%</td>
</tr>
<tr>
<td>2011</td>
<td>70%</td>
<td>2,9%</td>
</tr>
<tr>
<td>2012</td>
<td>69%</td>
<td>-2,1%</td>
</tr>
<tr>
<td>2013</td>
<td>75%</td>
<td>8,9%</td>
</tr>
<tr>
<td>2014</td>
<td>75%</td>
<td>-0,2%</td>
</tr>
</tbody>
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Table 1: Average Equity Ratio \( \text{ER}_{\text{CE}} \) and their year-on-year changes for all firms in the Swedish industry for wooden single-family houses for the years 2005 to 2014.
As Table 2 shows, $\varnothing_{ER\text{CE}CR5}$ ranged from 58% in 2013 to 105% in 2010. From 2005 until 2009, $\varnothing_{ER\text{CE}CR5}$ constantly decreased from 87% to 72%. Then, the two largest year-on-year changes appeared. From 2009 to 2010, an increase of the equity ratio from 72% to 105% (YoY=45.8%) was followed by a year-on-year decrease of 37.5%, down to a ratio of 66% the year after. The $\varnothing_{ER\text{CE}CR5}$ reached its bottom with 58% in 2013.

This development from 2009 to 2013 may require some extra thoughtfulness. As $ER_{CE}$ is meant to show the relative proportion of a firm’s long-term capital that is financed by its own equity, a result of 105% might look suspicious. Yet, regarding Equation (2) it can be seen that in addition to a firm’s equity, 73.7% of that firm’s untaxed reserves are included in the numerator. A way for the $ER_{CE}$ to become more than 100% is that the investigated firms’ have no or very little long-term liabilities and concurrently built up their reserves.

This was most likely the situation in the case at hand. Here, the boards of the CR5 firms probably realized the gravity of the market situation and decided to build up reserves from 2009 to 2010. The impact of that strategic move is that the firms did not have to pay as much taxes, and in that way, the firms tried to balance the declining turnover that negatively affects their profits. Firms tried to lower the magnitude of threatening economic losses. In the three following years, sales numbers declined and reached bottom. During these years, $\varnothing_{ER\text{CE}CR5}$ declined as well to its lowest level in the investigated time period. Even though the average financial strength of these five firms depreciated, building up reserves most likely let to that they partly could absorb those losses.

During the 10-years period of investigation, the $\varnothing_{ER\text{CE}CR5}$ lost 11 percentage points during the investigated time period. This is a decline of more than 12.5%.

## 4.3 AVERAGE EQUITY RATIO FOR THE FIVE FIRMS WITH THE SMALLEST MARKET SHARE

For the five firms in the industry with the smallest market share, CR5, the results are presented in Table 3.

For this group of firms, the studied equity ratio ranges from 47% to 74%. From 2005 to 2009, the financial strength of these firms only changes deliberate; yet, from 2009 to 2010, the equity ratio declines to 47%. Considering and following the argumentation in chapter 4.2, the five firms with the smallest market shares did not build up their reserves. Nevertheless, from 2010 onwards, a constant growth can be seen until 2014, with a year-on-year change peak of 24.8% from 2012 to 2013. In the end of the investigated time period, the $\varnothing_{ER\text{CE}CR5}$ lies 7 percentage points higher than in the beginning; an improvement equalling more than 10%.

## 4.4 COMPARISON OF EQUITY RATIOS FOR FIRMS WITH DIFFERENT MARKET SHARES

As presented in chapter 4.2 and 4.3, the financial strength of firms in the Swedish industry for wooden single-family houses developed in different ways during the investigated time period. This is graphically presented in Figure 2.
From 2009 to 2010, very interesting changes can be observed in Figure 2, i.e. the development of the financial strength for the investigated groups of firms differs completely. For the five firms with the largest market share, $\varnothing \text{ER}_{CE}$ increased from 72 % to 105 %. This represents an improvement of 45 % and a quite strong financial standing. At the same time, $\varnothing \text{ER}_{CE}$ for the CR$_{5}$ firms decreased from 65 % to 47 %, equalling a downfall of more than 27 % and implying that they lost in financial strength. An attempt to analyse these different developments was made in chapter 4.1 and 4.2 by drawing attention to the strategic move of building untaxed reserves. According to Equation (2), that was the only mathematically probable explanation to analyse that the $\text{ER}_{CE}\text{CR}_{5}$ passed 100 %. When the market declined, firms acted in completely different ways, depending on their market share, and so did their financial strength.

The same can be said for the years to come. From 2010 to 2011, the financial strength of the CR$_{5}$ and CR$_{5}$ firms developed in opposite directions, compared to the year before. For CR$_{5}$ firms that number decreased from 105 % to 66 %, while for CR$_{5}$ firms, a slight improvement from 47 % to 49 % can be observed.

Three one-year time delays can be found for the CR$_{5}$ firms, compared to CR$_{5}$ firms. The first delay is from 2010 to 2011. There, the financial strength of the CR$_{5}$ firms declined; for the CR$_{5}$ firms, this started one year earlier. This delay can be related to the described untaxed reserves. The second delay is most likely by reason of the first one. From 2010 to 2011, the financial strength for the five firms with the smallest market share recovered and slightly increased. This effect can first be observed one year later for the firms with the largest market share, compare figure 1.

From 2011 onwards, the development of the financial strength for the CR$_{5}$ firms does not show a distinct direction. For CR$_{5}$ firms, on the other hand, a steady improvement can be observed. There might be diverse reasons for this, which, however, cannot be derived from the data at hand. Thus, more information about managerial actions like for instance personnel/appointive policies as studied in [17] or other potentially affecting factors would be needed to explain this rather complex issue.

The only year, when the five firms with the smallest market shares showed a better financial standing than the five firms with the largest market shares, was in 2013. That time, the market recovered and the number of produced houses increased for the first time since 2007. Considering the figures at hand, it could be argued that the CR$_{5}$ firms could act faster, potentially due to their size, and in this case easier were able to capitalize on that market change. The same time, CR$_{5}$ firms needed more time to adjust their businesses to the changing situation. Even this time delay can be seen for the CR$_{5}$ firms from 2013 to 2014 in Figure 1.

**Figure 2: Comparison of Equity Ratio$_{CE}$ from 2005 to 2014 for firms in the Swedish industry for wooden single-family houses.**

To start with, the beginning and the end of the observed 10-years period are investigated. In 2005, the five firms with the largest market shares, CR$_{5}$ had the highest average of ER$_{CE}$, 87 %, whilst the five firms with the smallest market shares, CR$_{5}$, had the lowest with 67 %. This means that on average, the CR$_{5}$ firms financed a 20 % larger portion of their total assets by their own equity, compared to the CR$_{5}$ firms. Therefore, the average financial situation of the firms with largest market shares was stronger.

In the end of the investigated period, i.e. in 2014, both CR$_{5}$ (76 %) and CR$_{5}$ (74 %) are almost at the same level and thus, their financial strength is comparable. Yet, whilst the $\varnothing \text{ER}_{CE}$ of the CR$_{5}$ firms decreased by 11 percentage points, the corresponding numbers for CR$_{5}$ firms could increase by 7 percentage points. This indicates that all in all, the situation in the years before, during and after the financial crisis had a greater substantial impact on the financial strength of firms with larger market shares. For the industry in its entirety, the average financial strength changed from 76 % in 2005 to 75 % in 2014, which only is a marginal difference.

Regarding the years before the market downfall, where incoming orders and production quantity were increasing, i.e. 2005 to 2008/09, the average financial strength of the five firms with the largest market shares continuously decreased. At the same time, the average financial strength for the five firms with the smallest market shares developed on a constant level. As these years can be regarded as positive years from a profitability point of view that development can hardly be explained with the data at hand. Since increasing profit would increase the firms’ equity, which, ceteris paribus, would consequent in higher ER$_{CE}$ the investigated firms operated in a way that affected their capital employed. As an example, firms could possibly have discharged their long-term liabilities.
5 RESULTS

The overall aim of this study was to investigate the financial strength of the firms in the Swedish industry for wooden single-family houses before, during and after the financial crisis, depending on their market share.

This was done by investigating the firms’ equity in relation to their long-term capital, i.e. capital employed, (a) as the average for the whole industry and (b) as separate numbers for the five firms with the largest respectively the smallest market shares.

The data reveal that on average, own equity accounted for more than two-third of all firms’ long-term capital. Further, the average financial strength of all firms in the industry only decreased marginally from 76 % in 2005 to 75 % in 2014. This means that even though the financial crisis had various effects on the market and the industry, the firms’ financial strength is back on the same level where it was before the crisis.

Generally, the ø ERCE for the studied firms is higher than the rule of thumb, i.e. 30 % to 40 %. However, that interval is based upon the ERTA and not the ERCE, as applied in this study. Thus, a comparison could be misleading.

Considering market structure, the firms with the five largest market shares acted differently during and were affected differently by the financial crisis, compared to the firms with the smallest market shares. To start with, CR5 firms had a better financial strength in 2005 compared to CR3 firms. That year, their equity ratio was 20 percentage points higher. However, during the last years investigated, the financial strength of both groups of firms assimilated. While CR3 firms on average lost 12.5 % of their financial strength, CR5 firms increased their strength by more than 10 %. This allows for drawing the conclusion that the financial strength of firms with larger market shares was more negatively affected by the economic crisis than the one of firms with a smaller market share.

Further, the most apparent changes in financial strength during the investigated time period occurred between 2009 and 2011. In 2009, the CR3 firms chose the option to set untaxed reserves aside when they worried about the economic consequences of the declining sales numbers. This move decently upturned their financial strength in the short-run; their ø ERCE increased from 72 % to 105 %. Simultaneously, firms with smaller market share did not choose that strategic action and their ø ERCE declined from 65 % to 47 %. The year after, the described short-term effect disappeared; yet, CR3 firms could anyhow balance the magnitude of their losses.

Even though the attempt of analysing the firms’ situations as above might stand to reason, ceteris paribus is applied. There might be reasons and factors beyond the financial numbers in the investigated balance sheets and the available market figures that are not visible and thus not analysable in the current study.

Therefore, further research might shed light upon such factors. This could for example be done by qualitative studies, where decision makers from the CR3 and CR5 firms could be interviewed and asked about their strategic moves with respect to the economic crisis.

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