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Effect of Strategic Choice on Business Performance During 2008-2011

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Description: Overview of findings regarding financial, social, and environmental performance during the period 2008-2011 and how competitive strategy affected performance in US manufacturing firms.

Methods: Mail survey

Data Source: Select US manufacturers from five SIC designations: 1) food and kindred products, 2) tobacco products, 3) lumber and wood products, 4) furniture and fixtures, 5) paper and allied products, and 6) chemicals and allied products

Key Findings:

- Overall, companies report a slight decrease in their financial performance during this period
- Relative to low-cost focused companies, differentiation focused companies report better financial performance
- During this period, engagement in community matters decreased. Environmental issues, however, received increased attention, perhaps due to their cost saving potential
- Generally, companies view engagement in social responsibility activities as a financial drag. This view is more pronounced among low-cost focused companies

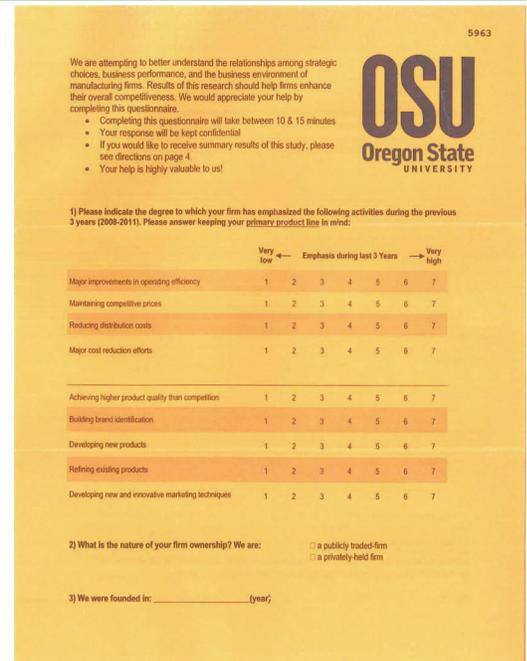
Introduction

In late 2012 you completed and returned a questionnaire to us and requested study results. **First, thank you very much for your response.** The first page of the questionnaire is shown to the right to remind you of the connection. This is the first of two Research Briefs that will be sent to you. This Brief gives a basic summary of study findings.

A changing general economic climate and a globalized marketplace have stressed manufacturing firms in the US with a majority of firms struggling to improve their competitiveness. In addition, emerging sustainability concerns have brought an unprecedented dimension for firms to address. Within this quickly evolving business environment, it is important to better understand the relationships among strategic choices and various forms of firm performance.

Methods

Data for this study was collected via a large-scale mail survey of US manufacturing firms in the sectors mentioned above. In total



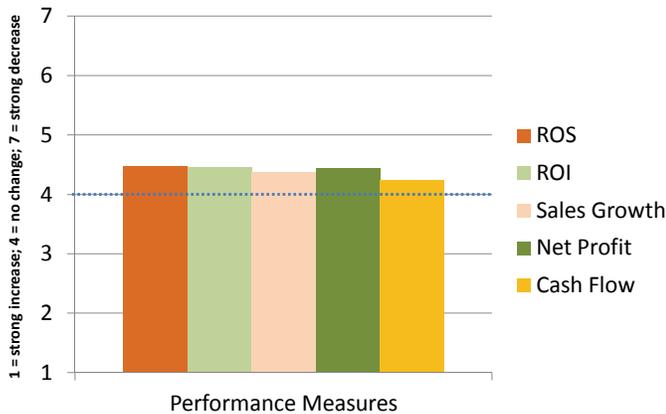
4599 questionnaires were mailed. From that 524 responses were received, leading to a response rate of 12%. Responses were recorded on a 7-point scale for all questions.

Results

Firms that responded to the survey represent a good demographic mix. The oldest firm was formed in 1810. Just over 4% of companies were formed in the 1800s and another 19% started operations prior to 1950. On the other end, nearly 6% were formed since 1999. Also, 73% firms have between 50 and 500 employees, nearly 20% have fewer than 50 employees, and the remaining firms have more than 500 employees. Overall, firms report a slight decrease in all five measures of financial performance during the period 2008-2011 (Figure 1).

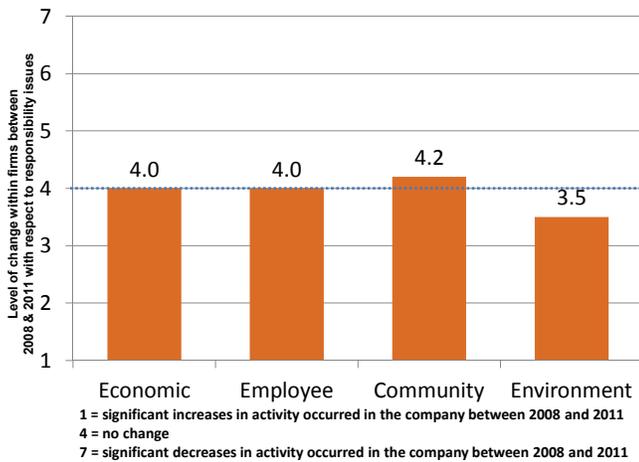
We created two respondent groups based on whether they were more oriented towards a differentiation or a low-cost competitive strategy. One-third of respondents tend to be more focused on differentiation. There is a statistically significant difference between differentiation focused companies and low-cost focused companies on each of the five measures of financial performance. Differentiation focused companies reported a lower decrease in their financial performance than low-cost focused companies. In other words, a low cost focus did not help companies as much as a differentiation focus.

Figure 1: 2008-2011 Financial Performance of Responding Firms



In terms of their social and environmental performance during the period 2008-2011, we asked questions related to consumer, employee, community, and environment issues (Figure 2). Overall, company performance went up in matters of environment, community issues related performance went down, whereas companies report no noticeable change in employee or customer related issues. We expect that a focus on cost cutting is the primary driver for the increase in activities related to the environment. One of the items representing this category was focused on energy efficiency. Given rising energy costs, it is logical that activities in this area increased.

Figure 2: Change in Responsibility Activities, 2008-2011

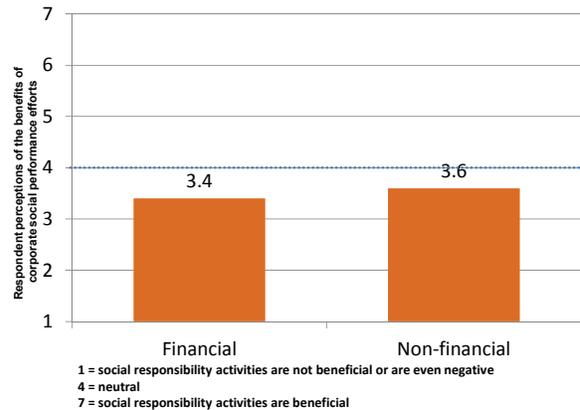


We also asked how respondents viewed the business benefits of engagement in social responsibility activities in their industry. Social responsibility activities were defined as, “those activities in product/customers, employees, commu-

nities, and environmental matters which are not required by law but which a firm may voluntarily engage in.”

Two types of business benefits, financial and non-financial, were assessed. Financial was represented by lowering of costs, increase in revenue, and the availability of financing related to attractiveness to investors. The non-financial benefits included reputation, brand-building, and risk avoidance. Generally, respondents can be described as skeptical with both categories being rated more to the “little benefit” end of the scale. The financial category was seen as less likely to be beneficial than the non-financial category (Figure 3).

Figure 3: Perceived Benefits of Social Performance



Relative to low-cost focused companies, differentiation focused companies were significantly more likely to view social responsibility activities providing business benefits. However, practically, this meant that differentiation focused companies were less skeptical regarding the potential benefits since both groups of companies, on average, were to the negative side of the scale midpoint.

Conclusions

During the period 2008-2011, firms focused on a differentiation strategy reported better financial performance than firms focused on a low-cost strategy. These same companies saw more potential in social responsibility activities to provide business benefits to a company. When hard economic times hit, it appears the first thing to go is community focused spending. Environmental matters received increased attention, perhaps due to their cost-saving potential.



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