

JOURNAL OF SMALL BUSINESS
STRATEGY

ENTREPRENEURIAL STRATEGIES IN A DECLINING INDUSTRY

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ABSTRACT

This study explores the strategies of small firms in the North Carolina furniture supply industry, an industry that has suffered significant job loss due to foreign competition. In case studies of 17 firms, managers identified the strategies that they believed would be most effective in confronting the threats of global competition and imports. Entrepreneurial strategies involving development of new products and entry into new markets ranked highest, but most of the firms were employing strategies that emphasized efficiency and focused on existing products and markets. Firms that employed more entrepreneurial strategies reported superior financial performance in terms of revenue growth, suggesting that entrepreneurial strategies were in fact more effective in this declining industry. This research identifies the impediments that prevented firms from employing entrepreneurial strategies, as well as the types of resources the managers believed would be required for successful implementation of entrepreneurial strategies.

INTRODUCTION

This research investigates the nature of entrepreneurship in a context that offers soil seemingly inhospitable for the "fresh value-creating strategies" (Eisenhardt & Martin, 2000: 1105) we associate with the construct. Turning from the start-ups and emerging industries that provide a natural venue for entrepreneurial activity this research explores evidence for and consequences of entrepreneurial strategies in an industry seen widely as in decline. A goal of this research is to determine if entrepreneurship will yield, in a beleaguered environment, the creation and recombination of resources that are the entrepreneurial firm's source of competitive advantage (Cockburn, Henderson, & Stern, 2000; Eisenhardt &

Martin, 2000; Grant, 1996). Between 2000 and 2001 the U.S. furniture industry lost more than 36,000 jobs, a decline of 6.5 percent. The most direct cause of this decline was imports. The U.S. International Trade Administration reports that U.S. imports of furniture and fixtures increased from \$10.8 billion in 1998 to \$17.5 billion in 2002. The largest increases in furniture imports came from China, Canada, Italy, Mexico, and Taiwan. Imports now account for almost fifty percent of U.S. furniture consumption. The pattern of job loss is particularly striking in North Carolina where the furniture industry has long been an economic mainstay. In North Carolina, the number of workers employed in furniture manufacturing dropped from 85,178 in 1990 to approximately 66,000 in 2001, a trend that

worsened in 2002 and 2003. As reported in a recent study by the North Carolina Department of Commerce, the North Carolina furniture industry, which employs roughly 10 percent of North Carolina's workforce, "is contracting fast with no bottom in sight," and short of decisive action "will soon be history" (Ucheoma, Buehlmann, & Schuler, 2002: 4).

Research exploring the domestic implications of globalization has commonly focused on the importance of government policies for positioning and enabling U.S. industries to more effectively compete in the new global economic climate (Ucheoma, Buehlmann, & Schuler, 2002). Public policy recommendations focus on such areas as increasing expenditures on education and job training, economic policy initiatives aimed at job creation, targeting of incentives, improvements in infrastructure, and political and legislative efforts to influence trade policy in ways that might be more favorable to domestic production. This research shifts the emphasis away from government policy to firm-level practices that companies in declining or challenged industries can employ to survive and prosper in the global economy. Although furniture industry firms face increasingly difficult challenges in repositioning themselves in the global economy, not all firms have suffered equally and some have found ways of sustaining and even growing their domestic and foreign markets.

This pilot study seeks to describe strategic alternatives that face firms in a declining industry. It reveals that the most effective strategies are entrepreneurial in nature, offering firms the possibility of new entry, new products, and new markets that can reduce the firm's reliance on the furniture industry. It also describes impediments that managers face as they survey a change in direction, as well as the resources that may enable firms to overcome these impediments. Finally, the study points to the performance implications of each of the strategies by

linking each with changes in firm revenue. **Strategies for Declining Industries**

Most strategic management textbooks recognize that the stage of an industry's life cycle (e.g., growth, maturity, or decline) is an important input to strategy formulation. Different strategies are appropriate for different life cycle stages. In this paper we focus on an industry that has entered the decline stage. Major reasons for an industry's decline include technological obsolescence, changes in consumer preferences, demographic shifts, and foreign competition (Grant, 2002; Harrigan, 1980). While the first three reasons are demand-based, the fourth reason, foreign competition, is largely cost-based; that is, overall demand has not diminished, but low-cost foreign competition has eroded the market share of domestic competitors. Much of the research on declining industries has failed to differentiate between decline caused by shrinking demand and that caused by the displacement of domestic production by low-cost overseas production (Grant, 1989). Therefore, the typical prescriptions for strategy in a declining industry, such as harvest or divestment, may not be appropriate to cases of decline caused by foreign competition. Moreover, prior research on strategies for declining industries has produced conflicting results, and no clear guidance for strategic managers has emerged (Filatotchev & Toms, 2003; Parker & Helms, 1992).

Entrepreneurship

Entrepreneurship is defined as the act of new entry, the launching of a new venture, "accomplished by entering new or established markets with new or existing goods or services" (Lumpkin & Dess, 1996: 136). As Covin and Slevin (1990) note, it is an organization's actions that make it entrepreneurial. Miller (1983) describes the entrepreneurial firm as one that is innovative, proactive, and more willing to take risk when compared to the less entrepreneurial firm, a

typology widely used and adapted by others (Covin & Slevin, 1989; Morris & Paul, 1987; Naman & Slevin, 1983). Following Schumpeter (1942) this emphasis conceives of entrepreneurship as a firm level phenomenon.

Beginning with the work of March and Simon (1958), a substantial body of research has described the influence of a hostile industry structure on firm performance, where hostility is defined as risky, stressful, exacting conditions under which the firm must confront powerful competitive, political, or technological forces (Khandwalla, 1977). Such conditions typically describe emerging growth industries; however, this research focuses exclusively on an industry in decline. In an industry where indicators suggest long-term decline, an emphasis on a conservative marshalling of available resources reminiscent of Miles and Snow's (1978) defender strategy may appear a more rational posture (Miller & Friesen, 1982) than an inherently risky entrepreneurial, prospector-type strategy.

Other research (Covin & Slevin, 1989) has observed that a more entrepreneurial posture will better equip firms to compete in hostile environments (Khandwalla, 1977). But will this strategy prove as effective in a condition of industry decline? Such a posture may prove more desirable than a conservative, defender-type strategy, particularly if it inclines firms towards a proactive search for new products and new, more promising markets, when such firms are willing to confront the risk that necessarily accompanies a fundamental strategic shift, and if the firm possesses the innovative capability needed to develop the products and practices that will enable it to compete in environments that are new and unfamiliar.

METHODS

This research employs a multiple case study design. According to Yin (1994: 1), "In

general, case studies are the preferred strategy when 'how' or 'why' questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context." All three of these conditions apply to the current study. Many strategy researchers have discussed the advantages of case studies for studying strategic processes in which organizational and environmental factors play key roles (e.g., Eisenhardt, 1989b; Pettigrew, 1992; Porter, 1994).

Sample

Firms providing supplies, tools, services, and materials to the furniture industry formed the sample for the study. These firms produce such products as plastic-injected parts, textile dyeing and finishing, wooden furniture parts, foam rubber products, and a wide variety of tools and material used in furniture manufacturing. Supply firms have been hit particularly hard by the growth in furniture imports. While the furniture manufacturing firms can take advantage of the low wages in countries such as China by shifting production overseas, their domestic suppliers are often idled as their inputs are no longer needed. And, as many of these firms are quite small, they lack the resources to follow the manufacturers in pursuit of production off-shore.

The advantages of a single industry focus has been observed by researchers (Miller, Greenwood, & Hinings, 1997; Rouse & Daellenbach, 1999) who note that a single industry sample can help control for problems such as common factor markets and inter-industry variance (Barney, 1986; Gordon, 1991; Mascarenhas & Aaker, 1989). The firms studied were selected from a manufacturing directory listing firms, SIC codes, years of operation, annual sales ranges, and number of employees. All were located in North Carolina.

Selection was based on three criteria. The

first was size. In keeping with the focus on small businesses only firms employing fewer than 500 persons, a cutoff figure often used to define small firms were selected (Moini, 1998; U.S. Small Business Administration, 1999). Second, to ensure that the formulation and implementation of the firm's responses to global competition were made at the level of the target firm, only stand-alone firms were chosen. Subsidiaries or divisions of larger firms were excluded. Finally, to ensure that the firms studied had experienced the recent upsurge in foreign competition in the furniture industry, only firms that had been in operation a minimum of seven years were included. Twenty-five firms meeting these criteria were selected. It should be noted that many more firms would have met the selection criteria. However, given the on-site, qualitative nature of the data collection methodology to be employed, the search for participants was stopped when it seemed likely that the firm list was large enough to yield a sufficient number of participant firms. The owner of each firm was contacted by telephone. The nature and format of the research was described and their participation was solicited. Of the 25 firms identified, 17 agreed to participate. The remainder cited work pressures as their reason for declining. Participating firms averaged 35 employees each and had been in operation a minimum of 12 years. These firms produced such products as plastic parts (three firms), foam and rubber products (four firms), metal parts (three firms), tools and supplies (four firms), and textile fabrication and finishing (three firms). All firm owners and 58 of the 88 managers were male. Participants averaged slightly more than 20 years experience in their respective industries. These firms averaged \$10 million in annual sales.

Data Collection

Data for this study was collected in on-site interviews in each of the 17 firms. Group interviews were held with members of the senior managerial staff in each firm. An

average of five staff members participated in each group interview for a total of 88 staff members and 17 principals participating. The firms' principals (owner / president / CEO) did not participate in group interviews; a separate interview was conducted with each principal. Separate interviews with the principals and management teams were held in the hope that the group discussions among the management team might be more open and candid in the absence of the principal. The interviews followed a semi-structured format with the researcher recording notes and comments on paper.

Participants were asked to consider and respond to several questions. They were asked to describe only actions that had occurred in their own firms or, to their knowledge, had occurred within actual firms in their industries and to avoid suggesting theoretical actions that could have been taken by firms outside their knowledge. The use of industry experts and knowledgeable insiders to provide information and insights regarding their respective industries has been found to be a useful technique in the identification and clarification of constructs descriptive of those industries (Reger & Huff, 1999; Zahra & Pearce, 1990).

Group Interviews

For the group interviews, the method of arriving at agreement regarding each of the constructs being investigated borrows from Gist (1987) and Early (1993). Gist suggested that one method of capturing a group's collective perceptions is through discussion resulting in consensus. This approach is in keeping with Weick and Robert's (1993: 358) observation that it is through such open discussion that group members "often discover higher-order themes, generalizations, and ideas" that transcend the views of any specific member (Lindsley, Brass, & Thomas, 1995). This approach follows Early's (1993) conceptualization of organizational members as informants of firm level constructs when the perceptions of these individuals can be

assumed to capture the collective opinions of the firm regarding phenomena such as entrepreneurial orientation. The researcher acted as facilitator to assist discussions as the groups worked toward consensus.

Participants in the group interviews were asked first to describe possible strategic responses that firms such as theirs might take to better positioning themselves to combat the growth in global competition. Their answers were written down where the responses could be seen and read by everyone in the group. When the group had listed as many responses as seemed likely to emerge from the discussion, the researcher next had the group focus on eliminating or combining any redundant responses. This final set of strategies, which varied somewhat in number and content across the different groups, was then listed for view.

Next, each group was asked to identify the strategies they felt best described the actual actions their own firms were pursuing to confront the threats raised by global competition. They were asked to indicate more than one strategy if more than one applied. They were then asked to rank the strategies they had identified for their own firms in terms of how important they felt them to be for success of their firms, ranking in order from most to least effective. These rankings were recorded for each firm.

The participants were then asked to look over the listing of strategies and consider them again in terms of how effective they felt each might be in leading to long-term success with no consideration given to whether a specific strategy had been used in their own firms. This was intended to identify strategies that the participants felt offered the greatest potential for success. They were asked to rank all of the listed strategies in order from that which they agreed would be most effective to that which they felt would be least effective.

The groups were then asked to list what they

saw as impediments that might prevent their own and other firms from pursuing strategies they had identified and described as likely to offer the greatest potential for the long term success. Finally, they were asked to describe the kinds of resources, capabilities, and knowledge they felt would be needed for their own and similar firms to initiate and pursue more aggressive strategies in response to growing global competition.

Principal Interviews

Interviews were held with the principal in each firm that addressed the same issues discussed in the groups. In addition, the principals were asked to describe the rate of new entry activity of their firms. They did this by selecting one of four statements that best described new entry expressed as a percentage of revenue, a measure derived from a scale developed by Moni (1998). Level 1 firms were those in which all of the firm's revenue was derived from familiar products offered to a stable market that had not changed in the previous five years. Level 2 firms were those where ten percent or less of the firm's revenues came from new markets with no growth or decline in that percentage over the previous five years. Level 3 firms were those where ten percent or less of the firm's revenues came from entry into new types of markets, but where, over the previous five years, the percentage had increased. Level 4 firms were those where ten percent or more of the firm's revenues came from entry into new markets and where the percentage had grown over the previous five years. In addition, principals were interviewed to collect information on the financial performance of their respective firms. Performance was measured by having the principals evaluate their firms in terms of changes in revenue levels over the previous three years.

Data Analysis

The interview data was analyzed in a manner modeled on a multiple case design outlined

by Eisenhardt (1989a, 1989b) and undertaken to suggest patterns in how constructs are perceived within the context of a specific industry or firm. The first step is the development of individual firm profiles. Items mentioned in the interviews were grouped in categories, for example, strategies to cope with foreign competition, and ranked according to frequency of mention. The second step combines the individual firm categories and rankings into listings that group and rank the items according to frequency of mention across all seventeen firms. This is an iterative process that compares the data from each firm in pairs of firm data, listing similarities, and differences between the pairs in an effort to produce a list of similar, related constructs. A goal of this approach is to avoid imposing categories or groupings of constructs based solely on existing literature, instead going to the data itself in hopes of discovering natural groupings of constructs as defined and understood within the industry (Ancona & Caldwell, 1992).

Findings

Analysis of the data suggested that five strategies describe the most likely responses to foreign competition. These strategies are described in Table 1. These strategies range along a spectrum from least to most entrepreneurial, where focus on the status quo and focus on improving efficiency with existing strategy are judged to be least entrepreneurial, and developing entirely new products for new and existing markets is judged to be most entrepreneurial.

Comments by the interviewees suggested that the five strategic responses described are not necessarily mutually exclusive. It is possible, for example, for a firm to focus on finding new customers for their existing products while also attempting to increase the efficiency of existing operations. Comments from the managers in these firms suggest how they attempt to balance the need to maintain efficiency in current operations,

exploitation; with efforts to develop new products and markets, exploration. Four firms had established sub-units within the overall operation that were set up to pursue new ventures, either new product development or new market entry, while allowing the parent organization to maintain current operations. In each of the four firms these sub-units had their own manager, staff, and budgets, although, perhaps given the small size of the firms, some movement of staff and supervision between the sub-unit and parent was reported. As reported by the firms employing such a strategy, utilization of a sub-unit for new venture development permitted a more focused effort and freedom from day-to-day operational constraints of the larger, parent operation.

Two of the firms stopped short of the creation of separate 'exploratory' sub-units and relied instead on a manager who led the efforts of ad-hoc new project teams composed of members from various units within the firm. Unlike the specific sub-units described above, membership in these new project teams was somewhat fluid, with members moving between new ventures and existing business. Only the project team manager had what might be understood as a full-time responsibility for new ventures. The project teams served primarily as prospectors for new venture opportunities, turning such ventures over to the parent firm if and when such ventures appeared to offer the likelihood of long-term success. As one manager described, the hand-off of a new venture from the project team to the parent firm benefited from the knowledge and experience of staff members who had worked on the venture while participating as members of the project team.

"This way it wasn't as if something entirely new was dropped in our laps. Guys who had worked up the ideas as members of the new project group simply merged the project into production when they put on their line manager hat." The key to the success of this

Table 1 – Strategies to Respond to Foreign Competition

Focus on status quo.

This position describes firms that have not elected to undertake any action in response to the new competitive threats. Firms thus described would maintain their current operations and routines while serving their existing customer base.

Focus on improving efficiency with existing strategy.

This strategy focuses attention on improving operational efficiencies within an existing product and market domain. This emphasis can involve the acquisition of new skills and competencies related to the improvement of existing operations.

Focus on new applications and refinements of existing products for existing markets.

This strategy stresses incremental change through the refinement, modification, and extension of existing products via incremental innovation. This strategy maintains continuity with respect to its target markets.

Focus on new applications and refinements of existing products for new and existing markets.

This strategy stresses incremental change through the refinement, modification, and extension of existing products via incremental innovation. This strategy focuses on the identification and entry into new markets.

Focus on developing entirely new products for new and existing markets.

This strategy calls for the development of new products to reach new and existing customer groups. This strategy requires the development of new capabilities regarding product development.

was the limited scale allowed for new project development. "We never work on more than one or two (new venture) projects at a time," one manager remarked. "We are just too small an operation to manage the confusion and the costs that would result if we tried to move several along at the same time."

Table 2 shows how the respondents ranked the five strategies in terms of how effective they felt they would be in confronting the threats of global competition and imports. The table shows two columns of figures. Column one ranks the five strategies in order from that which was perceived to be the most likely to result in long term success in confronting global competition to the strategy judged least likely to lead to success. The second column shows the total number of participants who felt each specific strategy would be most successful. For

example, 41 of the participants felt that a focus on developing new applications and

refinements of existing products for new and existing markets would be the most successful strategy. Thirty-five participants felt that a focus on developing entirely new products for new and existing customers would be the most successful. Therefore, over 70 percent of the 105 respondents believed that one of the two most entrepreneurial strategies would be most likely to lead to success in confronting global competition. Based on these findings, we propose the following proposition:

Proposition 1: Firms in declining industries consider that entrepreneurial strategies are more likely than efficiency-oriented strategies to lead to long-term success in confronting global competition.

Table 2 - Strategies Judged Most Likely to Result in Long Term Success

Strategy	Rank	Frequency of Selection
Focus on new applications and refinements of existing products for new and existing markets.	1	41
Focus on developing entirely new products for new and existing markets.	2	35
Focus on new applications and refinements of existing products for existing markets.	3	21
Focus on improving efficiency with existing strategy.	4	8
Focus on status quo.	5	0

Table 3 – Strategies Employed by Sample Firms

Strategy	Primary Strategy	Frequency of Selection
Focus on new applications and refinements of existing products for new and existing markets.	6	17
Focus on developing entirely new products for new and existing markets.	4	17
Focus on new applications and refinements of existing products for existing markets.	4	11
Focus on improving efficiency with existing strategy.	3	6
Focus on status quo.	0	0

Table 3 reports two measures of how the sample firms were employing the strategies described above. Primary strategy indicates the number of firms that identified a specific strategy as their firm’s primary strategic response to global competition. Thus, six firms indicated that focusing on improving efficiency with their existing operations was their firm’s primary strategic response. Frequency of usage indicates the number of firms that stated they were to some degree employing each strategy. Frequency of usage was included to reflect the fact that each of the firms reported employing more than a single strategy.

It is clear from the data in Table 3 that remaining within their existing product and market mix is the preferred strategy for most

of the firms in the study. Even among those firms, however, is evidence of an awareness

of the need to look beyond existing product and market domains. One remark is typical, “We still work hard to take care of what we call our own. We need to and have to, but we are also putting more effort in developing (new products) and hope to shift over more and more as they come online.” These findings and the data presented in the paper suggest the following proposition:

Proposition 2: Although firms in declining industries see the benefits of employing entrepreneurial strategies, they are more likely to remain within their existing product and market mix and employ efficiency-oriented strategies.

Table 4 – Revenue Performance and New Entry Activity

Revenue Change Over Previous Three Years	Number of Firms			
	Level 1	Level 2	Level 3	Level 4
More than 10% increase	0	0	1	1
0-10% increase	1	1	4	2
0-10% decrease	2	2	0	0
More than 10% decrease	2	1	0	0
Total	5	4	5	3

Level 1 Firms
All of the firm’s revenue derived from familiar products offered to a stable market that has not changed in the previous five years.

Level 2 Firms
Ten percent or less of the firm’s revenues came from new markets with no growth or even a decline in that percentage over the previous five years.

Level 3 Firms
Ten percent or less of the firm’s revenues came from entry into new types of markets but where that percentage has grown over the previous five years.

Level 4 Firms
Ten percent or more of the firm’s revenues came from entry into new markets and where the percentage has grown over the previous five years.

more entrepreneurial strategies tended to demonstrate higher financial performance as measured by change in revenue over the previous three years. These strategies included the modification and adaptation of existing products and services to the needs of new customer groups, entry into entirely new markets with existing products, the development of entirely new products and, internally, the addition of new capabilities to enable such development. In this table, firms are divided into four groups according to the percentage of revenues derived from new markets and the growth in this percentage over the past five years. None of the more entrepreneurial Level 3 and 4 firms experienced revenue declines over the previous three years, while revenues decreased at the majority of the less entrepreneurial Level 1 and 2 firms. This information on entrepreneurial strategies suggests the following proposition:

Proposition 3: In industries that are declining due to global competition,

entrepreneurial strategies are associated with higher revenue growth.

In addition to the creation of dedicated sub-units and new project development teams described earlier, the Level 3 and 4 firms in Table 4 were also characterized by what one manager termed ‘a regular habit of experimenting’ with new product and new market ideas. The entrepreneurial orientation described in these firms did not appear to be a sudden or recent reaction to a rise in foreign competition, but rather manifested a pattern of behavior that was characteristic of these firms, a pattern that reflects what Eisenhardt and Martin (2000) term dynamic capabilities, “organizational and strategic routines by which firms achieve new resource configurations as markets emerge, split, evolve, and die” (1007). This included regular experimentation with projects small enough to absorb without harm to the firm in the event of failure, limited but regular forays into new and unfamiliar markets, and an emphasis on

learning by doing that involved as many members of the staff as possible. This emphasis on participation was characteristic of the Level 3 and 4 firms (participation to include contact with customers and shared knowledge of trends and firm performance).

The comparative success in the Level 3 and 4 firms with new ventures, particularly as compared to the Level 2 firms, may be attributable in part to their regular and long-term experience with experimentation. In contrast, managers in three of the Level 2 firms suggested that their firms had only recently initiated exploration with new ventures and had done so under the imminent pressure of foreign competition and a decline in business. The owner of one of these firms, describing a recent new market entry, acknowledged that the abrupt nature of their new venture effort was probably a significant factor in its poor performance: "I think we jumped in too quick. We got the new business (new customer groups), but all of a sudden found out that we didn't have the systems in place to take care of their needs. We got in without knowing what we needed to know." A manager in another Level 2 firm described fear of mistakes as a constraint on his firm's ability to benefit from the development of new products and new markets: "...it's understandable given the weak position we were in, but the great fear we all felt at the possibility that we might try something new and fail became self-fulfilling. We just wouldn't try."

Table 5 summarizes the factors described as being the main impediments to the adoption of the entrepreneurial strategies listed in Table 2. The impediments shown relate to the three top strategies, those ranked 1, 2, and 3 in Table 2, and apply to these three strategies as a group. No impediments were listed for Strategies 4 and 5 as neither calls for the implementation of any change. Strategy 4 calls for increased operational efficiency within a current strategy or position while Strategy 5 suggests no change whatsoever. Each group ranked the items

identified during each group interview in order of their importance as impediments to the implementation of strategic change. The order shown in Table 5 represents a summary of those rankings. Thus, the item most often identified as the most significant impediment across the groups is number one, an existing knowledge base inadequate to develop new products.

Comments across several of the firms testified to the preference for existing operations in inhibiting consideration of alternative business models. "I know it's hard to defend but it's just so darn hard to give up what you know. And even when we can see the business dropping off, there is a real tendency to just focus on it harder than ever." Others expressed reservations about investing in an industry that did not offer a good deal of promise. "We are like a lot of firms trying to compete with equipment and processes that may not be the most up-to-date. But it's hard to make a case for plowing money into something that may go the way of cheap labor anyway." Still others expressed exasperation with the realization of a need to shift direction, but little in the way of solid information exactly where. "We all know we need to rethink everything. That's not hard. What we don't know is where we go from here." Another remarked, "The experts tell us we need to retool, refocus, remake ourselves. But they're not much on telling us retool for whom, refocus where, or remake ourselves into what." This interview data and the information reported in Table five suggest this final proposition:

Proposition 4: Managers of firms in declining industries are reluctant to employ entrepreneurial strategies to combat global competition because of uncertainty regarding the direction and content of such strategies and because they believe they lack the necessary resources for effective implementation.

Table 6 summarizes the factors that were described in the interviews as the types of

Table 5 – Impediments to Strategy Implementation

1. Existing knowledge base inadequate to develop new products.
2. High level of comfort with existing products and customers.
3. Reluctance to invest in what may be a fading industry.
4. Inadequate financial resources.
5. Insufficient time for developing new strategies, products, markets.
6. Uncertainty regarding unfamiliar markets.
7. No one to champion new strategies, new products, new markets.
8. Uncertainty regarding availability of new employees with the needed skills.
9. Uncertainty regarding what new products to attempt to develop.
10. Uncertainty regarding where to turn for help in identifying new directions.

Table 6 – Resources Needed For Strategy Implementation

- External**
- Assistance in identifying and accessing new markets
 - Availability of long-term capital to invest in new ventures
 - Assistance in training existing staff with new skills
 - Availability of appropriately trained external labor pool
 - Partnerships to pool and leverage capabilities
- Internal**
- Greater entrepreneurial spirit
 - Greater confidence in ability of firm to chart new directions
 - Organizational champion to promote change in direction
 - Time to devote to new product development
 - Financial resources to devote to new product innovation
 - New skills for new product innovation

resources needed for the successful implementation of the strategies listed in Table 1. Comments in the interviews suggested two types of resources; those whose source is outside the firm and those whose source was seen as internal to the firm.

A variety of comments illustrate the very real impediments firms can face in shifting from a routine and familiar strategy to a new and

unfamiliar one, and suggest resources that might enable such a shift. "I think it would make a big difference if we had someone really pitching the idea (shift in strategy). I think we would be receptive to the idea. It's just that there is no one pushing it," one manager remarked. More common was the suggestion that conditions within the industry had depleted and restricted the resources these firms might have had to devote to new venturing and product

innovation. "It's unfortunate, but at a time when we most need it, we find we have not nearly enough time or other resources to change course. I know we are going to have to find that time and money. But we haven't yet." Another remarked, "We are doing all we can right now just to stay even." Pointing out a lack of adequate skills to move into new products and markets one manager described, "I really think the only way we can get out of our near complete reliance on the furniture industry is merge or buy-out and find a partner we could work with who already has a position in some other market. I am not confident we could do it on our own."

Regarding external resources, several managers suggested possible help from government agencies. "With all the money the state pours into bringing big firms into the state, you would think they could devote some to helping existing businesses find better ways of staying alive." Another said, "It really gripes me that the state will throw millions of dollars at foreign firms to get them to come here and then throw us platitudes. How about money for retraining? Or some assistance identifying new markets? Aren't our jobs as important as the jobs they try to recruit?" Others, if less critical, were specific about the need for assistance. "Firms like ours could use help repositioning ourselves. Honestly, we are not entirely

clear on where we should look. Help from the state or federal government in training, maybe investment, maybe helping us move into new markets, could make a difference."

Proposition 5: Managers of firms in declining industries would benefit from assistance in the identification of new markets to replace those lost to foreign competition and assistance in the location and training of appropriately skilled staff. Internally, these firms would benefit from the development of capabilities that will better equip them for the transition to more adaptive business models.

CONCLUSION

This study illustrates how an entrepreneurial orientation may prove beneficial to firms in an industry facing the prospect of decline. It also points to the temptation to remain focused on familiar routines even when those routines serve markets and customers migrating to low wage countries. In addition to descriptions of the dilemmas firms often face when balancing the familiar but still important and the new and innovative, this research suggests some of the impediments that prevent managers from embarking on entrepreneurial strategies.

The interview data suggested a range of responses to the sharp rise in the global competition and the movement of furniture manufacturing to off-shore, low-wage countries. Six of the firms included in the study had chosen to maintain a focus on their current products, with an emphasis on increasing operational efficiencies within that product domain. Four were attempting to identify new applications of their existing products that could be marketed to their current customer base. These ten firms declined to respond to the erosion in domestic furniture production via new entry, defined as entry into new markets or new product development. This reluctance to branch out beyond an existing product and market domain is despite the ranking of strategies (Table 2) which indicates that the new entry strategies were judged most likely to be successful in responding to the globalization of the industry.

The explanation for this unwillingness to consider new entry via new markets, new products, or both may be the impediments to such action. It is hardly surprising that managers might express a high degree of comfort in sticking to existing operations. Familiarity is not only comfortable but often a product of successful, profitable routines. An expressed reluctance to invest in what seems a fading industry is likewise unsurprising and seemingly prudent. A

knowledge base judged inadequate to the tasks of market and product innovation would certainly dampen enthusiasm for any kind of new entry. Inadequate time or financial resources to pay for such an effort may be a more intractable problem, particularly for the small, privately held firms described in the study, although the interview data suggest divergent patterns among the firms.

It would be useful to know how similar firms acquired a willingness to change and to acquire the skills needed to do so. A remark made by the principal of one of the seven firms that had responded to the challenge with new entry illustrates a different approach. "This shift (to off-shore production) should not be a shock to anyone. We started looking for a position outside this market when we saw it coming. It might have seemed like throwing money away at the time, but if we had waited until now we wouldn't have any money to throw." A manager in another such firm remarked, "We spent a little time and a little money trying out new things, not always profitably by the way. But the results seem to be worthwhile." Another comment from this group expresses one goal of a new entry strategy, "At least we are not completely dependent on the furniture industry for survival." Comments such as these reflect proactiveness, one component of entrepreneurial orientation.

A reluctance to change because of uncertainty is reflected in four of the factors cited as impediments to new entry: uncertainty regarding new markets, new labor skills, new products, and uncertainly regarding where to find the information needed to chart new directions. A manager of one of the more entrepreneurial firms described her firm's position regarding the uncertainty that comes from moving in a new direction: "I think because we have maintained a posture of what you might call venturing with new products and markets, we have built up a knowledge base and some

skills that makes competing in a new market less uncertain. We don't know all we maybe should know, but we know enough to get started." Another remarked, "This (new product) is a gamble for us, a step away from our historic market, but I believe we feel pretty strongly that we have the capacity to do it. We're ready for it." Another, describing product innovations and a marketing initiative that would move the firm into new, non-furniture markets, remarked, "There is a lot about this (new) market we don't know. We could stick with what we've been doing till they turn out the lights. And I'd do that, sell out, except I'm confident we can make it. We have a team that can make it work."

These and other responses suggest that one of the attributes of the more entrepreneurial firms may be strategic flexibility, "the capacity of the firm to pro-act, or respond quickly, to changing competitive conditions, and thereby develop and/or maintain competitive advantage" (Hitt, Keats, & DeMarie, 1998: 26). The more entrepreneurial firms related examples of the continuous rethinking and retooling that leads to strategic flexibility. The less entrepreneurial firms, on the other hand, appeared to be stuck in their routines, paralyzed by uncertainty.

Implications

This research suggests several implications for future research. Because it is based on case studies of 17 firms, the results cannot be tested statistically; therefore, large-sample quantitative research could provide additional insights. Because the sample is limited to a single industry group, generalizability to other firms and other industries is uncertain. Researchers may find new and surprising insights by exploring the strategic responses of firms in other industries facing decline. Future research should also explore factors that might incline some small firms to choose diversification, but not others, particularly as their traditional customers fall away. As Cohen and

Levinthal have noted (1994), some firms are simply 'better prepared' to perceive and then meet the need for strategic change. While investigations on the transformational role of top leadership have been helpful (Viator, 2001) in this regard, it should also be beneficial to examine firm level characteristics that can accommodate the difficult balance of exploration and exploitation, retrenchment, and diversification. Research to tease out the internal factors that enable some firms to successfully employ entrepreneurial strategies would be particularly interesting. Many questions regarding the development and implementation of entrepreneurial strategies in declining industries remain to be answered. While the participants in this study identified the impediments that kept them from employing entrepreneurial strategies and the resources that they lacked, future research should focus on factors that enable some firms to overcome these impediments.

This research has important implications for managers of small firms in industries that are declining due to global competition. Rather than continue with business as usual, this study suggests that managers should take more risks, explore new products and markets, and generally employ more entrepreneurial strategies. The firms that overcame their fear of uncertainty and made investments in new entry achieved superior financial results. Moreover, they seemed to be more confident about their ability to combat the threat of global competition in the future. Managers in declining industries should endeavor to build strategic flexibility (Hitt et al., 1998) and to be proactive in facing the challenges of global competition.

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