

**Barbara Parker/Marilyn M. Helms**

## **Generic Strategies and Firm Performance in a Declining Industry**

### **Abstract**

- Strategic management of decline has received limited empirical attention in the management literature, but there are three conflicting prescriptions for achieving superior results in a declining industry. These strategies are either: pursue a single generic strategy, pursue a combination of cost and differentiation, or follow a reactive strategy.
- This study examines the three strategic perspectives on the strategic management of decline with a sample of U.K. and U.S. textile mill product firms.
- Results indicate, in this declining industry, firms in the two countries pursue similar strategies and that superior performance is associated with mixed and reactive as well as single generic strategies.

### **Key Words**

- In the declining textile mill products industry in the U.K. and the U.S., remaining firms can achieve performance success by following mixed and reactive as well as single generic strategies.

### **Authors**

Dr. Barbara Parker, Associate Professor of Management, Albers School of Business and Economics, Seattle University, Seattle, WA, U.S.A.

Dr. Marilyn M. Helms, U.C. Foundation Professor and Assistant Professor of Management, School of Business Administration, University of Tennessee at Chattanooga, Chattanooga, TN, U.S.A.

Manuscript received April 1991, revised November 1991.

There are few universals for strategic management of decline, but firms intending to survive decline often are urged to develop a clear strategic purpose (Hofer 1980, Hambrick and Schechter 1983). What this strategic purpose should be is not always clear because the literature on strategic management of decline contains three strategy prescriptions. One argument is that firms should pursue a distinctive and *singular* generic type business strategy (Hofer 1980, Hambrick and Schechter 1983). Generic types often are represented by Miles and Snow's (1978) four adaptive strategies, and more recently by Porter's (1980) generic strategies of cost leadership, differentiation, or focus (Harrigan and Porter, 1983). A second point of view argues that firms can successfully *combine* generic business strategies (Hall 1980, Hill 1988), usually of the cost and differentiation types that Porter (1980) believes should involve an either/or choice. This second point of view typically argues that environmental contingencies dictate the conditions under which combination strategies are useful, and suggests business strategies may vary depending on industry characteristics (Miller and Friesen 1986 a).

Yet a third view of strategic purpose is: there are no universally prescribed strategies that lead to performance success in decline (Thietart 1988). Thus, the third perspective implicitly argues that frequent changes in a firm's strategic purpose may not result in the poor performance Porter predicts for most "stuck in the middle" firms (1980, p. 41). On the contrary, it has been argued that at the end of an industry life cycle, "firms stuck in the middle may actually be able to adapt to changes in the industry environment more readily than firms committed to a specific strategy" (Dess and Davis 1984, p. 486). The latter perspective has not been empirically tested.

Conflicting prescriptives for strategic management of decline suggest types of generic strategies associated with superior business performance in a decline industry can more easily be described than prescribed. Conflicting prescriptions also challenge managers who face a current literature that simultaneously tells them: a) choose and pursue a single generic strategy, b) combine generic strategies, and c) react, as no universals apply. Thus, further examination of the relationships between generic business strategies and performance appears warranted, particularly in a decline industry where strategic indecision could lead to serious consequences.

The following literature review further develops the three perspectives on strategic management of decline by examining both general management literature and decline literature to identify relationships between generic strategy and performance. The review is followed by an empirical examination of these relationships in a sample of textile mill producers (involved in spinning, weaving, and finishing) from the United States and from the United Kingdom. Specifically, an operationalization of Porter's (1980) generic categories is used to identify the intended strategies of sampled firms. Relationships between each

of the strategies and measures of organizational performance also are explored. In summary, this paper is a test of the proposition that singular strategy is associated with superior performance in a declining industry. The results are intended to produce new insights on generic strategies, and in particular, to examine their applicability to an industry in decline.

## Review of the Literature

### The singular generic strategy concept

General management researchers often argue that singularity of strategic purpose is associated with superior firm performance. Miles and Snow (1978) indicate that several types of strategies can be successful, but that without a specific strategy (i.e., prospector, analyzer, follower) firms are reactive and typically experience poor business performance. More recently, Porter's (1980) popular model of generic strategies similarly argues that "sustained commitment to one of the strategies [cost leadership, differentiation, focus] is usually necessary to achieve success" (p. 40).

Porter's model has been well received and frequently tested (Chrisman, Hofer and Boulton 1988), but the scope of most research debate is limited to the two generic strategies of cost leadership and differentiation. Low cost relative to competitors is the unifying theme for a business pursuing Porter's cost leadership strategy; it requires attention to cost control and "vigorous pursuit" of cost reductions (1980, p. 35). The primary strategic purpose of differentiation, on the other hand, is to be unique on one or several business dimensions. As a result, differentiation may require investment rather than the cost minimization characteristic of a cost strategy. Because of these and other differences, cost and differentiation strategies involve different resources, strengths, or organizational arrangements (Porter 1980).

Dess and Davis (1984) were able to distinguish between the cost and differentiation strategies and the activities associated with each strategy in their study of the paint and allied products industry. Focus activities and hence the focus strategy was less clearly identified in their study, perhaps because as Porter (1985) has defined it, the focus strategy is cost or differentiation activities within a narrow market. The result is that the two dimensions of focus are difficult to separate from cost and differentiation per se. For example, a panel of managers and academic experts were readily able to distinguish between activities associ-

ated with cost and differentiation, but less well able to identify the two distinctive focus activities (Dess and Davis 1984). As a result of this difficulty, the focus strategy is tested far less often than are cost and differentiation. Within the body of work on cost versus differentiation strategy, some find that superior performance is associated with either cost or differentiation strategies. For example, the Dess and Davis (1984) study of paint and allied products showed that firms with a primary generic strategy outperformed stuck in the middle firms. Phillips, Chang and Buzzell (1983) also found “generalizable results showing that certain types of generic strategies do lead to success” (p. 42), and other writers also provide support for the singular generic strategy concept.

Galbraith and Schendel (1983) identified clusters of strategies for consumer and industrial products, finding different strategy types are associated with different business outcomes, and work by Hambrick (1983) and White (1986) support singular generic strategies as well. Miller and Friesen (1986a), for example, found evidence of some pure generic strategies among firms in industrial product and capital goods industries, although their results indicate that the generic strategies may not hold true in consumer durables industries. Therefore, due to putative industry differences, Miller and Friesen (1986a) recommended further investigation of the prevalence of Porter’s (1980) generic strategies in specific industries.

### **Combined generic strategies**

Ironically, some of the research supporting singular generic strategy also produces results that sow seeds of doubt about the relationship between singular generic strategy and superior performance, and it appears that some businesses succeed only when they combine differentiation and low cost generic strategies (Hill 1988, Murray 1988). For example, White (1986) found that 19 of the 69 business units he examined had the highest ROI and achieved competitive advantage based on combined cost and differentiation strategies. Similar support for a combination strategy was found by Phillips, Chang, and Buzzell (1983), and Wright and Parsinia (1988) identified successful firms using combined generic strategies in fragment industries like banking, retailing, distributing, and creative businesses.

As a result of these studies and other work, Hill (1988) proposed that the generic business-level strategies of differentiation and overall cost leadership are not incompatible but may be combined in some firms to achieve competitive advantage. In summary, the general management literature reveals contradictory results on the link between singular generic strategy and performance. These contradictions are mirrored in the literature on strategic management of decline.

### Strategic management of decline

The literature on strategic management of decline presents a challenge because the phenomenon of industry decline goes by various names. For instance, the stalemate described by Calori and Ardisson (1988) sounds very much like the decline industry Porter describes (1980). Specifically, sustained industry losses result in limited opportunities for competitive advantage among surviving firms. Similarly, hostile environments are described as those which have a “relative lack of exploitable opportunities” (Covin and Slevin 1989, p. 75). For purposes of this paper, the definition of decline follows Porter’s (1980); it occurs when an industry has experienced sustained absolute losses presumed sufficient to exhaust available remedies to decline.

Persistent industry decline reduces organizational options, and decline from any source typically has a negative effect on both human and financial resources (Cameron, Whetten and Kim 1987). As is found in the general management literature, there are those who argue that a sense of shared organizational purpose is critical to turnaround (Hambrick and Schechter 1983) or success in a hostile environment (Hall 1980, Khandwalla 1984). This suggests that the concept of singular generic strategy is relevant to the decline experience.

Hofer (1980) and Hambrick and Schechter (1983) found that singularity of strategic purpose, specifically efficiency or entrepreneurial types of responses, was best for turnaround situations, while Miles and Snow (1978), Miller and Friesen (1986 a, 1986 b), and Porter (1980) argue that combination strategies can result in poor performance for firms in decline. The latter writes that “the firm stuck in the middle is almost guaranteed low profitability” (p. 41), with failure almost certain when “firms in difficulty . . . flip back and forth over time among the generic strategies” (p. 42).

Conversely, Hall (1980) found firms can successfully combine cost and differentiation activities in a hostile environment and Thietart (1988) found that combination strategies of several types can work well for declining firms. These findings suggest that a single generic strategy (either of cost or differentiation), is not essential for superior performance in a decline industry. Thus, further examination of the relationship between singularity of generic strategy and performance appears warranted, particularly in a decline industry where the relationships between strategies and performance are especially critical.

The phenomenon of decline creates an uncertain future and complex challenges for managers. While managers may pursue a clear and distinctive strategy as textbooks generally recommended, they could just as likely decide that rapid shifts in industry conditions can only be matched by reaction, or what Porter would call “stuck in the middle” strategies. The negative connotations of being “stuck in the middle” or “reactive,” and strong support in the developed nations for binary choices make it difficult to consider being “stuck in the middle” a

strength. However, for firms facing intense industry competition from many sources, most firms will cut costs and therefore, few firms are likely to derive a sustainable competitive advantage from pursuing a cost strategy. As a result, competitive advantage may only come from combining cost activities with some types of differentiation strategy (Calori and Ardisson 1988, Hill 1988). Similarly, when an industry nears the end of its life cycle, firms "stuck in the middle" may actually adapt to changes in the industry environment more readily than firms committed to a specific strategy (Dess and Davis 1984). The research on generic strategy is silent on many of the issues affecting decline industries, despite increased evidence of industrial decline in developed countries (Aggarwal 1988). So in addition to examining singular and combined generic strategy, a third purpose of this study is to examine a global industry in order to provide managers with more insight as to the strategies they should adopt in the face of decline caused by increased international competition.

In summary this paper will address unanswered questions regarding generic strategies in a decline industry, namely: Are singular generic strategies evident in a decline industry? and what are the relationships between singular and mixed generic strategies and performance in a decline industry?

## Method

### Sample

Industry characteristics may limit the range of feasible strategies available to firms (Hambrick 1983) and because recommended practice is to study one or more definable industries (Johnson and Thomas 1987). In addition, the industry had to include sufficient numbers of potential and accessible respondents, as well as sufficient industry information to help interpret the actions and strategies of surviving firms. Finally, since the business is the appropriate level of analysis for studies of generic strategies, we identified an industry that contained firms concentrating on single or related product lines, allowing us to assume, as others have (Dess and Davis 1984), that business-level strategy is synonymous with corporate-level strategy.

The textile mill products (TMP) industry has experienced absolute losses in employment and revenues in many developed countries in the last 15 years, particularly in the U.S. and the U.K. (Hammill 1987). Spinning, weaving, and finishing operations have been most affected in both countries, resulting in a relative scarcity of exploitable opportunities for most firms.

Preliminary interviews with textile mill producers in the Southeast United States and Northwest United Kingdom area, where spinning, weaving, and

finishing operations are principally located, revealed that even with intense cost pressures, firm managers were finding ways to achieve superior performance and to survive under conditions they described as competitive. For example, during an interview with the authors, the manager of a U.S. textile filter production firm described using both cost and differentiation activities. For example, he had replaced labor with machines (a cost activity) and he had tried to provide superior service to existing customers (a differentiation activity).

Multiple sources (e.g., *The Textile Blue Book*, *KOMPASS*, *The British Clothing Industry Yearbook*, 1988, and the 1988 *Kelly's Business Directory*) were used to identify the spinning, weaving, and finishing firms in the TMP industry. The SIC code for TMP is 2,200, but industry segments that have not experienced decline in one country or the other were excluded from the study. For example, neither carpets nor home decorating fabrics have experienced decline in the U.S. and those segments were eliminated from this study.

A random sample of firms participating in declining segments was selected, and a letter was mailed to approximately 300 firms in each country; it described the study and asked managers to complete and return a 94 item questionnaire. The latter included demographic and performance data, assessed intended competitive actions, and asked respondents to comment on their business experiences. Two mailings yielded a 16% return rate for the U.S. sample ( $n = 48$ ); there were no significant differences between early and late responses. The initial British response was slightly lower ( $n = 39$ ) at 13%, but the follow-up mailing in Britain was delayed and eventually cancelled by what became a protracted Royal Mail strike.

There were few statistically significant differences between U.S. and U.K. respondents. In both cases, sales revenue for the previous year ranged from less than \$200,000 to more than \$20 million, with median revenues of \$4–10 million in both countries. The average ROA (return on assets) was 11–14%. Eighty three percent of the firms in both countries were privately owned and ninety percent of the respondents were male. On average, U.S. respondents employed more people; however, six large U.S. firms accounted for these differences and the average size of U.S. firms dropped to 165 employees as compared to 156 employees in the U.K. firms when these six firms were excluded. These ranges suggest that respondents constituted a representative sample of the textile mill products industry as it operates in the the U.S. and in the U.K. (Hamill 1987).

### Generic strategies

Porter (1980, 1985), argues that the choice of a generic strategy dictates the appropriate activities to pursue. For example, cost leadership calls for cost minimization whereas differentiation may require investment. In their study of the

paint and applied products industry, Dess and Davis (1984) developed 21 items intended to measure Porter's (1985) cost, differentiation, and focus strategies. For example, operating efficiency, product and quality control, and procurement of raw materials were viewed as cost leadership activities whereas brand identification, innovation in marketing, and control of distribution channels were viewed as differentiation activities. A focus strategy was described by activities like new product development and manufacturing capacity for specialty products. Dess and Davis (1984) invited academic and management experts to judge the content validity of their instrument, finding that raters showed consistency on most of the items intended to measure cost and differentiation strategy, but less agreement was observed on focus activities.

Eight top managers in the TMP industry were asked to rate the applicability of the 21 items to their industry for the present study. On the basis on top manager's expert judgments, all 21 items were retained for the final instrument. Respondents were asked to rate the importance of each activity to the firm's overall strategy on a 5-point Likert-type scale were 1 = not at all important and 5 = extremely important. Following survey administration, factor analyses were used to examine construct validity for the sample, and as the data shown in Table 1 indicate, items believed reflective of the three generic type strategies clustered as expected on the three factors. Scale reliability for the 21 competitive activities in the TMP sample showed an acceptable reliability coefficient ( $\alpha = 0.82$ ).

The three forms of generic strategy were based on respondents' average responses to items identified with each factor. Six items were classified as differentiation strategy, six as cost strategy, and three as focus strategy. Coefficient alphas were acceptable for each subscale, at 0.77 for differentiation, 0.81 for cost, and 0.63 for focus.

### **Performance measures**

Goals of the financial community are important assessments of financial performance (Dess and Davis 1984), and for this study measures utilized included relative net profit, operating performance, and ROA. ROA is a presumed aim of most business (Hambrick 1983), and this measure is often used in research (Bettis and Hall 1982, Hoskisson 1987). Growth measures also are useful performance measures (Dess and Robinson 1984), particularly when the sample includes small, privately-held firms (as are found in the TMP industry) whose goals often include employment growth (Bagby and Shull 1987). Sales revenue growth for one year and for five years, and employment growth for the same two periods were measured in this study because many spinning, weaving, and finishing firms are both small and privately held. Sales growth has been sug-



**Table 1.** Characteristics of the Textile Mill Products Sample

	U.K.	U.S.	Significance <sup>1</sup>
Ownership			
Public	6	8	
Private	32	38	–
Sex of Respondent			
Male	34	43	
Female	4	5	–
Respondent's Position			
Owner/Manager	4	3	
President/CEO	21	28	
Manager	9	6	
Vice President	0	8	
Secretary	3	1	0.05
Average Return on Assets, 5 years			
less than 5%	5	7	
5%–9%	4	7	
10%–14%	2	14	
15%–24%	1	8	
25% or mehr	6	9	–
Sales Revenue <sup>2</sup> , previous year			
0 to \$199,000	1	0	
\$200,000–\$299,000	4	2	
\$500,000–\$999,000	1	2	
\$1 million–\$1.9 million	6	6	
\$2 million–\$3.9 million	8	3	
\$4 million–\$9.9 million	5	8	
\$10 million–\$19.9 million	6	6	
\$20 million or more	7	20	–
Age of firm	49	41	–
Age of respondent	46	47	–
Firm tenure of respondent (years)	15	16	–
Number of employees in firm	156	2,281 <sup>3</sup>	0.01

<sup>1</sup> Chi-square tests of significance for sex through sales revenue; t-tests for firm age through number of employees.

<sup>2</sup> Sales revenues for British firms were reported in pounds Sterling, then converted to U.S. equivalents at \$1.80 (the prevailing rate at the time of the survey).

<sup>3</sup> The U.S. sample contains six firms that account for the difference in average size; when these six are removed from the sample, average size of U.S. firms is reduced to 165 employees.

gested as one reflection of how well an organization relates to its environment (Hofer and Schendel 1978), and employment growth was judged a likely indicator of superior performance for this sample because labor costs are important to international competition in the textile mill product industry (Toyne, Arpan, Barnett, Ricks, and Shimp 1984). This suggests that firms able to add labor are performing well.

Respondents were asked to assess relative growth and financial performance on scales anchored by 5 = excellent and 1 = poor. This type of scale was intended to reduce respondent concerns over confidentiality and minimize the time spent computing exact figures (Begley and Boyd 1987) and to improve the response rate after a field test showed that many managers of privately held TMP firms omit open-ended performance questions. While this is a limitation of the study, this method may be most appropriate to examine relative industry performance when, as was true for sampled firms accurate objective measures are not uniformly available, and the only other alternative is to remove performance variables from the research design (Dess and Robinson 1984).

## Results

A globalizing industry may produce analogous conditions in developed countries, resulting in similar strategies for similar types of firms. Available data indicate this has been the case for very large multinational firms in this industry that have similarly absorbed domestic firms, developed off-shore material and labor sources, and crossed national boundaries to exploit specialty markets (Hamill 1987). Interviews with multiple U.S. and U.K. TMP managers in the year prior to data collection indicated that these similarities might hold among smaller or privately held firms, and this was empirically examined by comparing demographic data and intended strategies for the U.S. and the U.K. firms.

There were no statistically significant differences between U.S. and U.K. respondents for any of the 21 competitive methods; parametric and nonparametric tests of 9 demographic and performance variables shown in Table 1 reveal only two statistically significant differences. These differences are minimal, for example respondents title is primarily due to semantic differences since the majority of the respondents were top managers.

The 21 competitive activities were analyzed via a principal components analysis solution with a varimax rotation. Because items loaded on essentially the same factors in the U.S. and U.K. samples, the data were pooled to meet the recommended ratio of four respondents per item in the factor analysis (Kim and Mueller 1978) and increase stability of responses. In a principal components analysis, item loadings on a factor represent the correlation between the item and the factor. As Table 2 indicates, these correlations showed both convergent and discriminant validity for item-to-factor correlations. Six factors with an eigen value greater than 1 were observed, but a scree test revealed four meaningful factors. The fourth factor contained only two items, one of which also loaded on another factor and this fourth factor was consequently dropped from further

**Table 2.** Competitive methods – Textile mill products industry

Competitive methods	Rotated factor structure			
	Factor 1 Differentiation	Factor 2 Cost	Factor 3 Focus	Communi- nality
V10-Brand ID	0.751 <sup>1</sup>	0.205	-0.265	0.530
V18-Advertise	0.747 <sup>1</sup>	0.083	-0.039	0.605
V11-Innovate Mkt	0.707 <sup>1</sup>	0.183	0.281	0.660
V12-Control Dist	0.686 <sup>1</sup>	0.161	0.208	0.634
V20-Forecast Mkt	0.489 <sup>2</sup>	0.169	0.131	0.530
V4-Product Quality	0.067	0.832 <sup>3</sup>	0.048	0.763
V3-Operating Eff	0.119	0.812 <sup>3</sup>	-0.157	0.721
V5-Exp. Personnel	0.218	0.696 <sup>3</sup>	0.284	0.643
V21-Mfg Process	0.411	0.487 <sup>3</sup>	0.325	0.515
V13-Raw Materials	0.177	0.601 <sup>2</sup>	0.345	0.631
V16-Mfg Spec Prod	0.002	0.042	0.868 <sup>4</sup>	0.760
V17-Price Seg Mkt	0.069	0.124	0.695 <sup>4</sup>	0.639
V15-Geo Markets	0.268	-0.114	0.478 <sup>5</sup>	0.639
V7-Comp Pricing	0.190	0.299	-0.092	0.240
V6-High Inventory	0.087	-0.054	-0.039	0.797
V9-Dev Exist Prod	0.139	0.384 <sup>3</sup>	0.244	0.591
V2-Customer Serv	-0.082	0.299	0.423	0.585
V8-Broad Prod Range	0.204	0.134	0.191	0.694
V1-New Prod Develop	0.437	0.017	0.101 <sup>4</sup>	0.529
V19-Industry Repute	0.279	0.45 <sup>3</sup>	0.165	0.487
Eigenvalue	5.20	1.98	1.77	
Percent of variance	24.8	9.5	8.5	

<sup>1</sup> Loaded at 0.50 or above on the differentiation factor in Dess and Davis (1984) study.

<sup>2</sup> Loaded at 0.50 or above on both differentiation and cost factor in Dess and Davis study.

<sup>3</sup> Loaded at 0.50 or above on cost factor in Dess and Davis study.

<sup>4</sup> Loaded at 0.50 or above on focus factor in Dess and Davis study.

<sup>5</sup> Did not load at 0.50 or above on any factor in Dess and Davis study.

consideration. The data appearing in Table 2 indicate, TMP manager's responses to the 21 competitive activities conceptually represent the three generic strategies of differentiation, cost, and focus.

The three factors of cost, differentiation, and focus accounted for 42.7% of the sample variance, with focus strategy accounting for least variance (8.5%). This result reinforces the continuing need to accurately distinguish the focus strategy.

Relationships between generic strategy activities and performance were examined in several ways. For example, above and below average factor scores on each of the generic strategies were used to classify firms' strategy preferences

**Table 3.** Forms of generic strategies for textile mill product

Firms	U.K.	U.S.	Total
1) Cost Strategy	9	19	28
2) Differentiation Strategy	1	0	1
3) Focus Strategy	5	3	8
4) All Three	2	1	3
5) None of the Three	14	14	28
6) Differentiation & Cost	4	9	13
7) Differentiation & Focus	0	0	0
8) Cost & Focus	1	2	3
Total	36	48	84

and resulted in the eight strategic groupings shown in Table 3. A firm with an above average factor score only on cost activities was classified as pursuing a cost strategy; whereas, a firm whose factor score was above average on both differentiation and cost activities was identified as emphasizing both a differentiation and a cost strategy. As these data show, U.S. firms were more likely than U.K. firms to pursue cost strategy, and a total of fourteen firms in each country were classified as “stuck in the middle” since managers reported below average scores on each of the three generic strategies. Three firms pursued a second form of “stuck in the middle” strategy with above average scores on each of the three generic strategies. Only one firm showed a clear differentiation strategy, but this may occur because firms with differentiation strategies in this sample often combined them with a high emphasis on cost. These data provide support for the three generic strategies, and also found combinations exist that are more nearly mixed or reactive types of strategies.

A research goal was to examine the relationship between singularity of generic strategy and performance. Accordingly, firms were grouped whereby those with a single generic strategy of any type ( $n = 37$ ) constituted one group; those that mixed any two generic strategies, e.g., differentiation/cost were a second group ( $n = 16$ ). A third group emphasized all three generic strategies ( $n = 3$ ) and a fourth put low relative emphasis ( $n = 28$ ) on each generic strategy. These latter two groups may be said to represent variations on a “stuck in the middle” strategy because the firms emphasize neither single generic strategy nor a combined cost/differentiation strategy.

Total growth and total performance scores were each categorized as below average, average, and above average for respondent's firms. Nearly equivalent numbers of above average growth and below average growth firms appear in the sample, regardless of generic strategy emphasis on lack thereof. As the data reported in Table 4 show, seven firms experienced above average growth with a

**Table 4.** Strategic groups and performance

	Performance (Growth)			
	Above Average	Average	Below Average	Total
Singular Generic Strategy	7	21	7	35
Diff/Cost or Focus/Cost	3	10	3	16
Stuck in the Middle (A) (all equally important)	1	2	0	3
Stuck in the Middle (B) (all equally important)	5	17	4	26
	<u>16</u>	<u>50</u>	<u>14</u>	<u>80</u>
	Performance (Financial)			
	Above Average	Average	Below Average	Total
Singular Generic Strategy	8	16	7	31
Diff/Cost or Focus/Cost	5	9	1	15
Stuck in the Middle Strategy (A) (all equally important)	0	2	1	3
Stuck in the Middle Strategy (B) (all equally unimportant)	6	14	5	25
	<u>19</u>	<u>41</u>	<u>14</u>	<u>74</u>

singular generic strategy, but seven showed below average growth with a singular strategy. Table 4 shows the same equivalency for financial performance, except that more above average performers pursued mixed strategies—either cost/focus or cost/differentiation—than do below average performers. There were no statistically significant differences between the groups due to strategy emphasis, suggesting firms pursuing mixed strategies are just as likely to be high performers as those with a singular generic strategy. These results provide new insights into strategic choice and the corresponding performance success in this decline industry.

Relationships between the three generic strategies, as measured by the instrument and high/low performance on financial performance and growth also were examined. Factor scores for each generic strategy were the dependent variables in two analyses of variance where high and low growth and financial performance were the grouping variables. As the data in Table 5 show, financial performance is significantly higher when firms pursue more cost activities ( $p < 0.01$ ), but growth is significantly greater ( $p < 0.02$ ) when scores on differentiation activities are high.

**Table 5.** Generic strategies and performance

	High Growth (n = 16)	Low Growth (n = 14)	F-Value	Sign of F
Average scores for:				
Differentiation	3.73	3.01	8.05	0.01
Cost	4.46	4.02	3.29	n.s.
Focus	3.15	3.39	0.23	n.s.
	High Financial Performance (n = 19)	Low Financial Performance (n = 14)	F-Value	Sign of F
Average scores for:				
Differentiation	3.29	3.32	0.012	n.s.
Cost	4.55	4.04	5.76	0.02
Focus	3.23	3.10	0.073	n.s.

## Discussion

The results of this research show that several strategies are appropriate to firms in the declining industry studied. While it may appear that every strategy works, a closer examination of the findings shows that strategies need to be carefully tailored to industry characteristics in the following ways. Combined strategies of differentiation or focus and cost do occur and are associated with high performance in this industry. This appears to be consistent with those several studies that say mixed generic strategies work (Hall 1980, White 1986, Phillips, Chang and Buzzell 1983, Hill 1988).

It was suggested that cost strategies alone may be insufficient if cost emphasis is the industry norm, and there were two reasons to believe that low cost is a norm for the TMP segments studied. First low cost foreign labor has intensified price competition for the industry (Toyne and others 1984), and second, industry participants indicate that cost is an ongoing concern for them. The latter was revealed in interviews, and by comments respondents provided on the questionnaire. One manager had lowered labor costs to meet Japanese competitors, but he believed that the Japanese would soon find new ways to introduce even lower costs. These results and comments suggest that cost competition is a norm in which case we would expect to see combined cost/differentiation and cost/focus strategies such as appear here.

Second, stuck in the middle firms do not perform in the decline segments of the TMP industry as Porter (1980, 1985) suggests they might. Specifically, firms

that react to the environment, i.e., those that have no single generic strategy, as measured for this sample perform as well as those with a singular generic strategy. Dess and Davis (1984) argue that stuck in the middle or reactive strategies may help firms remain flexible at the end of an industry's life cycle. These results appear to confirm that point of view in decline industries by demonstrating that firms in a decline industry need not pursue a singular generic strategy in order to achieve superior performance. Future research is needed to explain why or in which circumstances a stuck in the middle strategy is more appropriate than a combined or singular strategy.

Third, singular generic strategies are identified by respondents, but appear to be associated with specific managerial objectives: firms with high financial performance in this decline industry prefer activities primarily associated with cost leadership, while high growth firms tend to pursue differentiation activities more strongly than low growth firms. In other words, growth in sales revenue and employment are associated with differentiation; while financial performance is related to cost containment activities. These findings suggest a need to match generic strategies with goals sought. In addition, they demonstrate that distinctions between singular generic strategies may be blurred as firms combine generic strategies to pursue multiple goals or when researchers use growth and financial performance measures in combination. Exploring this finding is another interesting area for research.

Finally, this research indicates that firms in global industries must take into account the salient characteristics of the particular industry when adopting strategies. Both U.K. and U.S. firms pursued some types of cost activities and this probably occurs because of increased competition from low cost producers in developing countries. However, firm in developed countries may be able to combine cost leadership with some other generic strategy to produce a "stuck in the middle" or combined strategy that gives them sufficient competitive advantage to succeed in an increasingly complex global industry. More work is clearly needed to explore the various activities managers in the more developed countries can use to defend against the cost advantages of the lesser developed world, and to prepare for increasing technological capability among those nations. This will permit us to offer more advice to managers in a global industry such as the TMP industry has become.

As with most research this study helps to answer some question while posing new ones. Based on the results, it appears that the industry is strikingly similar in the two study countries, but further research should examine the applicability of this finding to other declining industries to determine their value for managers in other industries in overcapacity worldwide, e.g., shoes, metal casting semiconductors, and fishing equipment. The sample comes from an industry that has experienced decline for some 15 years, but strategy may not be the only explanation for survival among firms studied here. In other words, some firms

may remain because others made space for them by exiting this troubled industry. Subsequent research should investigate this possibility and in so doing provide additional insight for how generic strategies occur in a declining industry.

## References

- Aggarwal, R., "The strategic challenge of the evolving global economy". *Business Horizons*, 30, 1987, pp. 38–44.
- Bagby, D.R. and S.G. Shull, "Measuring performance in small business". *Proceedings of the Southern Management Association*, New Orleans, November, 1987, pp. 193–195.
- Begley, T.M. and D.B. Boyd, "A comparison of entrepreneurs and managers of small business firms". *Journal of Management*, 13(1), 1987, pp. 99–108.
- Bettis, R.A. and W.K. Hall, "Diversification strategy, accounting determined risk, and accounting determined return". *Academy of Management Journal*, 25, 1982, pp. 254–264.
- Calori, R. and J.M. Ardisson, "Differentiation strategies in 'stalemate industries'". *Strategic Management Journal*, 9, 1988, pp. 255–269.
- Cameron, K.S., D.A. Whetten, and M.U. Kim, "Organizational dysfunctions of decline". *Academy of Management Journal*, 30(1), 1987, pp. 126–138.
- Chrisman, J.J., C.W. Hofer, and W.R. Boulton, "Toward a system for classifying business strategies". *Academy of Management Review*, 13(3), 1988, pp. 413–428.
- Covin, J.G. and D.P. Slevin, "Strategic management of small firms in hostile and benign environments". *Strategic Management Journal*, 10, 1989, pp. 75–87.
- Dess, G.G. and P.S. Davis, "Porter's (1980) generic strategies as determinants of strategic group membership and organizational performance". *Academy of Management Journal*, 27, 1984, pp. 467–488.
- Dess, G.C. and R.B. Robinson, Jr, "Measuring organizational performance in the absence of objective measures: The case of the privately-held firm and conglomerate business unit". *Strategic Management Journal*, 5, 1984, pp. 265–273.
- Galbraith, C. and D. Schendel, "An empirical analysis of strategy types". *Strategic Management Journal*, 4(2), 1983, pp. 153–173.
- Hall, W.K., "Survival strategies in a hostile environment". *Harvard Business Review*, 58(5), 1980, pp. 75–85.
- Hambrick, D.C., "High profit strategies in mature capital goods industries: A contingency approach". *Academy of Management Journal*, 26, 1983, pp. 687–707.
- Hambrick, D.C. and S.M. Schechter, "Turnaround strategies for mature industrial-product business units". *Academy of Management Journal*, 26(2), 1983, pp. 231–248.
- Hamill, H., "The internationalisation of the UK textile industry". *Textile Outlook International*, The Economist Publications, May 1987.
- Harrigan, K.R. and M.E. Porter, "End-game strategies for declining industries". *Harvard Business Review*, Juli–Aug., 1983, pp. 111–120.
- Hill, C.W.L., "Differentiation versus low cost or differentiation and low cost: A contingency framework". *Academy of Management Review*, 13(3), 1988, pp. 401–412.
- Hofer, C.W., "Turnaround strategies". *Journal of Business Strategy*, 1(1), 1980, pp. 19–31.
- Hofer, C.W. and D. Schendel, *Strategy formulation: Analytical concepts*, West, St. Paul, MN., 1978.
- Hoskisson, R.E., "Multidivisional structure and performance: The contingency of diversification strategy". *Academy of Management Journal*, 30, 1987, pp. 625–644.
- Johnson, G. and H. Thomas, "The industry context of strategy, structure and performance: The U.K. brewing industry". *Strategic Management Journal*, 8(4), 1987, pp. 343–361.
- Khandwalla, R.N., "Turnaround management of mismanaged complex organizations". *International Studies of Management and Organization*, 13(4), 1984, pp. 5–41.



- Kim, J. and C.W. Mueller, *Factor Analysis: Statistical Methods and Practical Issues*. Beverly Hills, Cal.: Sage University Press, 1978.
- Miles, R.E. and C.C. Snow, *Organizational Strategy, Structure and Process*. New York: McGraw Hill, 1978.
- Miller, D. and P.H. Friesen, "Porter's (1980) generic strategies and performance: An empirical examination with American data Part I: Testing Porter". *Organizational Studies*, 7, 1986a, pp. 37–55.
- Miller, D. and P.H. Friesen, "Porter's (1980) generic strategies and performance: An empirical examination with American data Part II: Performance implications". *Organizational Studies*, 7, 1986b, pp. 255–261.
- Murray, Alan I, "A contingency view of Porter's 'generic strategies'". *Academy of Management Review*, 13(3), 1988, pp. 390–400.
- Phillips, L.W., D.R. Chang, and R.D. Buzzell, "Product quality, cost position and business performance: A test of some key hypotheses". *Journal of Marketing*, 47(2), 1983, pp. 26–43.
- Porter, M.E., *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, New York: The Free Press, 1980.
- Porter, M.E., *Competitive Advantage*. New York: The Free Press, 1985.
- Thietart, R.A., "Success strategies for businesses that perform poorly". *Interfaces*, 18(3), May–June, 1988, pp. 32–45.
- Toyne, B., J.S. Arpan, A.H. Barnett, D.A. Ricks, and T.A. Shimp, *The Global textile industry*, George Allen & Unwin (World Industry Studies 2), London, 1984.
- White, R.E., "Generic business strategies, organizational context, and performance: An empirical investigation". *Strategic Management Journal*, 7, 1986, pp. 217–231.
- Wright, P. and A. Parsinia, "Porter's synthesis of generic business strategies: A critique". *Industrial Management*, May–June, 1988, pp. 20–23.