



# Pure versus hybrid competitive strategies in the forest sector: Performance implications



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## ABSTRACT

The extant forest sector strategy research rests on Porter's classic dictum that successful firms pursue a singular strategy. A growing research stream on organizational ambidexterity, however, challenges this traditional view and recommends the pursuit of hybrid strategies, a phenomenon that we note existing among forest sector firms. In this study, we set out to compare the financial performance of firms pursuing a singular or pure strategy and those pursuing hybrid strategies. We compare whether a differentiation, overall low cost, or hybrid strategy yields higher financial performance. We first deduce our study hypotheses and then test each using data from 441 US-based manufacturing firms drawn from multiple sub-sectors. We find no evidence that a hybrid strategy is a more effective choice towards enhanced firm performance than a singular strategy. We also find that firms pursuing a differentiation strategy are the highest performers while there is little difference in performance of firms pursuing other strategies.

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## 1. Introduction

Single mindedness was traditionally touted in strategy literature as a desired characteristic of successful firms. Following Porter's (1980) landmark work, it remained for an extended time almost a sacrosanct dictum that firms should pursue either a cost leadership or a differentiation strategy and that an attempt to simultaneously pursue both would result in what Porter called a "stuck-in-the-middle" situation, a recipe for poor performance. In this sense, Porter's early work vouches for successful firms pursuing a pure or singular strategy. However, later work by Porter (e.g., 1996) recognizes the potential for hybrid strategies and a growing number of studies (e.g., Hill, 1988; Parnell, 1997; Thornhill and White, 2007; Pertusa-Ortega et al., 2009) challenge the pure strategy notion and argue a need for "dual" or "hybrid" strategies. Kotha and Vadlamanni (1995) articulate how a hybrid approach may be exactly what is needed for succeeding in the complex business environment of the 21st century.

In the forest sector, both previous research (e.g., Bush, 1989; Rich, 1986) and anecdotal evidence suggest that many firms indeed pursue hybrid strategies. For example, a growing number of sawmills in the US and Europe that traditionally focused on cost leadership, now also

focus on new product development and nimble production to differentiate themselves. However, to date, there has been no systematic study comparing the financial performance of pure versus hybrid strategies among forest sector firms, much less offering a theoretical explanation as to why a hybrid strategy may lead to superior performance. We address these gaps through this paper.

Ultimately, our contributions to forest sector literature are threefold. Our primary contribution is investigating the impact of hybrid strategies on forest sector firm performance, a topic that has been mentioned many times in past research, but we have directly tested the impacts of hybrid strategies on performance in forest sector firms. In doing this we introduce to the forest sector literature the growing body of knowledge around organizational ambidexterity and connect it with the concept of hybrid strategies. Finally, our findings illustrate what strategy choice is currently most effective for forest sector firms in their pursuit of superior financial performance.

We organize this paper in the following way. Our theoretical background consists of three separate sub-sections. In the first, we outline Porter's (1980) generic business strategies and the general debate surrounding pure versus hybrid strategies. In the second sub-section, we characterize the extant strategy literature in the forest sector and note how common it is for forest sector firms to pursue hybrid strategies. In the third sub-section, we introduce the fast-developing organizational ambidexterity concept to argue that firms can effectively pursue more than one strategy at a time. In the next section, we advance three separate hypotheses regarding the impacts of strategy choice on firm performance. In the section that follows, we describe study methods including

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design, data collection, and analysis performed to test our hypotheses. Finally, we combine results with discussion of study findings both from academic and practical perspectives, outline key study limitations, and note major conclusions drawn from this study.

## 2. Theoretical background

### 2.1. Porter's generic business strategies

Porter (1980) proposed that firms may seek competitive advantage through pursuing any of three generic strategies, namely, overall cost leadership, differentiation or focus. Following previous forest sector literature (Hansen et al., 2006), and that a focus strategy is a variant of overall low cost or differentiation (Porter, 1985), we limit our investigation to overall low cost and differentiation strategies. Firms pursuing a cost leadership strategy focus on economies of scale, continuous improvement, and efficiency throughout the organization with a goal of driving out costs and competing on low price. Firms pursuing a differentiation strategy are less concerned with costs and strive to create differences between themselves and the competition that are of value to the customer base. Thus, these firms concentrate on adding value through, for example, brands, proprietary grading, customer service and promotion (Bush and Sinclair, 1992).

A key assumption underlying Porter's early thinking is that firms cannot successfully pursue more than one strategy at a time. He argues that firms attempting to do so are stuck-in-the-middle, essentially ineffective in implementing either strategy well, and are poor performers as a result. As discussed further below, there is some support for this thinking in the organizational ambidexterity literature. For example, He and Wong (2004) maintain that the skill set needed to pursue exploitation (e.g., overall cost leadership) is quite different than the skill set needed to pursue exploration (e.g., differentiation) and maintaining both skill sets is generally not viable, especially for small firms possessing fewer resources (Cao et al., 2009; Lubatkin et al., 2006).

### 2.2. Strategy research in the forest sector

Strategic management research, specific to the forest sector, spans nearly three decades. Much of the early work follows the Porter (1980) approach and focuses on investigating business strategies employed by forest sector firms (e.g., Bush, 1989; Rich, 1986). Other research largely moves away from Porter's line of thinking and focuses on identification of those resources which are critical to developing sustainable competitive advantage for firms (e.g., Lähtinen, 2009; Bonsi et al., 2008), and embrace a resource-based view of the firm (Barney, 1991; Wernerfelt, 1984). A comprehensive synthesis of the forest sector strategy literature is provided by Toppinen et al. (2014) explaining the evolution of forest sector strategy research. As much as the Porter typology is overused in previous literature, it gains new importance in light of the emerging debates about pure versus hybrid strategies.

#### 2.2.1. Generic business strategies of forest sector firms

Rich (1986) finds that, between 1976 and 1979, 50% of large U.S. forest sector companies were pursuing a cost leadership strategy. However, by 1984 this proportion had fallen to 31%. He also finds a significant portion of firms pursuing hybrid strategies. Bauerschmidt et al. (1986) examine US paper companies and find them to be more oriented towards a cost leadership strategy than differentiation. They also note the prevalence of a focus strategy among paper companies, but do not assess the pursuit of hybrid strategies.

Bush (1989), in his study of the top 100 hardwood lumber producers in the US, finds that the smallest firms have no strong orientation and are stuck-in-the-middle. He also finds a group of companies pursuing a hybrid strategy that he describes as clearly providing competitive advantage if the two can be achieved simultaneously. Companies in the study intend to move toward a differentiation strategy in the future.

Based on the softwood sawmilling sectors in multiple countries, Niemelä (1993) finds between 21 and 23% of respondents pursuing hybrid strategies. Finnish sawmills are least cost leadership oriented with only 11% of companies claiming this strategy. In the U.S., 29% of companies pursue cost leadership and in Canada 23%. A differentiation strategy is pursued by 32%, 38%, and 26% of Finnish, U.S. and Canadian companies, respectively. Wan and Bullard (2008) find US furniture companies to pursue only hybrid strategies since each of four groups of firms in their research pursues some combination of Porter's strategies. Interpretation of work by Gazo and Quesada (2005) supports this picture of furniture industry strategies. Hugosson and McCluskey (2009) find a change toward differentiation in Swedish sawmills, describing a shift away from commodities and, through improved marketing, they have moved a majority of their business to what they describe as relationship marketing. This evolution is referred to by others as a move from commodity to value-adding activities (Bregre et al., 2010) or to specialty and custom-made products (Hansen et al., 2002; Niemelä and Smith, 1996).

Despite a rich repository of studies, past forest sector research has largely ignored the viability or efficacy of pure versus hybrid strategies. Notably, this issue has received considerable attention in the general strategic management literature (e.g., Hill, 1988; Parnell, 1997, 2000; Thornhill and White, 2007; Pertusa-Ortega et al., 2009). Pertusa-Ortega et al. (2009) summarize a host of studies showing that cost leadership and differentiation can be compatible. Hill (1988) argues that some situations require hybrid strategies, especially in mature industries—such as forest sector—where there may be no unique, low-cost position. Pursuit of a differentiation strategy can lead to increased sales volume, market share, and resulting economies of scale that in turn contribute to pursuit of a cost leadership strategy (Hill, 1988; Pertusa-Ortega et al., 2009). In this sense, firms may have a dominant strategy but a totally pure strategic posture likely does not exist in practice. Thornhill and White (2007) specifically define strategic purity as emphasizing one type of strategy, not total adherence to one over the other.

### 2.3. Organizational ambidexterity

Organizational ambidexterity, a popularizing concept within strategy and organization theory literature can elucidate the prevalence of hybrid strategies as well as their impact on firm performance, and thus can inform further the pure versus hybrid strategy debate. The study of organizational ambidexterity began in earnest in the 1990s and has grown to become a research paradigm within organizational theory (Raisch and Birkinshaw, 2008). The paradigm has been applied in numerous fields, including organizational learning, innovation, and strategic management (Raisch and Birkinshaw, 2008). According to Gibson and Birkinshaw (2004, p. 210), "... the ambidextrous organization achieves alignment in its current operation while also adapting effectively to changing environmental demands." In its most basic sense, organizational ambidexterity means that a firm can do two different things simultaneously (Simsek, 2009), and the literature includes a host of dyads such as exploitation/exploration (March, 1991), incremental/discontinuous innovation (Tushman and O'Reilly, 1996), exploit assets (profit-enhancing)/new technology and markets (O'Reilly III and Tushman, 2011), alignment/adaptability (Birkinshaw and Gibson, 2004), and, of particular interest here, differentiation/cost leadership strategy (Gibson and Birkinshaw, 2004).

The organizational ambidexterity concept can help address the existing "stuck-in-the-middle" paradox in the literature. The literature suggests that cost leadership and differentiation strategies require distinct cultures, capabilities, structures, and processes and are therefore sufficiently different activities posing an extreme challenge for a firm to do both well (e.g., He and Wong, 2004; Porter, 1980). However, on the other hand, the literature maintains that pursuit of a hybrid strategy may not be as elusive or difficult to achieve as once thought because organizations can, in effect, be ambidextrous (Lubatkin et al., 2006).

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