Strategies for Superior Performance under Adverse Conditions:

A focus on Small and Medium Sized High-Growth Firms

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Abstract

This article explores the strategies pursued by small and medium-sized firms to actively sustain growth within declining markets. A critical analysis of relevant growth theories informs the development of a semi-structured interview schedule; findings drawn from 20 case studies indicate that firms adopt a multiple-strategy approach in which they pursue an innovative differentiation and product-/service-customization strategy simultaneously. Following this strategy, we found that firms make an intentional search for high-margin products, while avoiding aggressive price competition and maintaining tight control of costs. We demonstrate that an adverse environment does not necessarily inhibit firm growth and that individual firm specific strategies can be invoked to overcome volatile market conditions.

Keywords: declining industries, small firms, over-performers, strategy, divergence

Introduction

Small and medium sized enterprises (SMEs) in general, and high-growth ones in particular, are critical to economic growth given their capacity to create new jobs (Henrekson and Johansson, 2010, Acs and Mueller, 2008, Acs et al., 2008), sustain survival (Phillips and Kirchhoff, 1989)[1] and mitigate recessionary pressures (Storey and Greene, 2010: 207). However, rapid-growth in SMEs is rare; and indeed, high-growth spurts are unpredictable and difficult to maintain (Barringer et al., 2005). Such rapid growth is usually a 'one-time' occurrence (Parker et al., 2010); thus, of the few firms that do grow, only a very small proportion continue to do so and are "exceptions" to the rule (Storey, 2011: 306).

Considering this, one could easily question the merit of focusing on such a 'singular' phenomenon. Yet, as Coad argues succinctly, "there is little point in trying to find the determinants of growth for the 'average firm', this latter grows so little that its growth could be due to almost anything…it is just a handful of extreme-growth firms that are responsible for a disproportionate share of the turbulence and reallocation that drive industry dynamics" (2009: 6). Given the centrality of high-growth firms to economic progress, it is important to understand the characteristics and success factors of high-growth SMEs. In this study, we develop this argument and add a novel aspect when focusing specifically on the strategies that SMEs in declining industries employ to achieve high growth.

We are cognisant of the arguments considering growth – particularly high growth – as being either a one-time occurrence or merely the cumulative outcome of a stochastic

[1] Phillips and Kirchhoff (1989) shows that there is only a 26% chance of survival within 6 years of establishment if it does not achieve growth

process, a ‘game of chance’ (Coad, 2009, Storey, 2011). Undoubtedly, serendipity and luck are influential factors of growth. Nevertheless, for a small firm to maintain a growth momentum, especially in the face of market adversity and size limitations, serendipity alone does not secure sustainable growth[2]. Instead, a growth strategy must be present that is linked to firm resources and capabilities and also, to the external environment. Such a strategy can augment growth potential by strengthening core competences and establishing competitive advantages (Barbero et al., 2012, Westhead and Wright, 2011).

In this paper we critically analyse the strategies employed by SMEs that achieve high growth for four consequent years, while operating in declining industries. Our unit of analysis is the firm, and our central research question is: What strategies are employed by high-growth SMEs such that they continue to thrive within the context of declining industries?

We contribute to the literature in two distinct ways. First, we provide new empirical evidence on high-growth strategies in poorly performing and declining environments. The impact of the environment on the firm growth – strategy relationship has been extensively explored. However, the literature has been somewhat dormant over the last 20 years (Stopford and Baden-Fuller, 1992, Geroski and Gregg, 1997, Covin and Slevin, 1989). In addition, there has been relatively little analysis of rapid-growth in adverse conditions (Gundry and Welsch, 2001). Second, we extend theory by focusing on a little-explored sub-sector of established high-growth SMEs. Past studies have focused mainly on either large high-growth firms or micro start-ups (for a review of the

[2] Please see ‘Data Sample’ section and Table 1 for further elaboration of the argument

literature see Parker et al., 2010). Established high-growth SMEs have received little attention (Moreno and Casillas, 2007, Delmar et al., 2003, Barbero et al., 2012). Yet, these firms differ substantially from both their larger (Coad, 2009) and their newly established micro counterparts[3] (Wright and Marlow, 2012). Any generalization from these past studies is therefore, precarious.

In general, and while drawing upon established theories of growth in firms to develop our constructs, we focus on how such constructs differ in the context of an industry in decline, and explore the aptness of past theories in this new setting. Given a lack of current empirical research on high-growth firms in these adverse contexts, we use an inductive case-study approach to examine the strategies employed by 20 high-growth firms from 20 sectors. A combination of primary and secondary data is employed, while the analysis of the data is based on a three-step approach that allows us to appropriately classify and profile the companies under investigation. A within-case analysis and a cross-case analysis are also employed after triangulating the data from all sources (Eisenhardt and Graebner, 2004).

The paper is structured as follows: The theoretical foundations of SME growth are explored first, followed by our research methodology. The research findings are then presented and discussed. Finally, we outline the limitations of the study and proposals for further research, we conclude the discussion and outline our contribution.

[3] During the first entrepreneurial years, "entrepreneurial ventures may grow in different ways" (2012: 108) due to different goals set by their founding members. Hence their strategies differ substantially and cannot be compared to the strategies of the consistently growing established firms.

Theoretical Foundations of SME Growth

Small -Firm Growth Literature: General Perspectives

Growth is not a prerequisite for the existence or the mere survival of small firms; the latter can remain voluntarily (or involuntarily) at the same size during their entire life (Davidsson et al., 2007, Penrose, 1959). Indeed, several growth barriers have been identified in the literature that appear to impede the growth potential of small firms (Doern, 2009), with owner's lack of willingness to grow being among the most cited reasons (Gundry and Welsch, 2001, Storey, 2011). Nonetheless, the positive externality of firm growth for the economy is undeniable, as it helps to create employment[4] (Acs et al., 2008), innovation (Oke et al., 2007) and overall regional performance (Audretsch et al., 2008). As a result, a plethora of studies has been conducted to determine the facilitators of the firm's growth, especially since – arguably – past growth is self-reinforcing, and hence creates future growth (Delmar and Wiklund, 2008).

A number of different factors have been suggested to be facilitators of small-firm growth (for a literature review see Davidsson et al., 2002, Dobbs and Hamilton, 2007). The characteristics of the entrepreneur, human- and social-capital competences, size, age, location, and the strategies employed are the factors that have received the most attention in the relevant body of literature. Yet, irrespective of the substantial literature on the subject, we are still far from a clear picture of what makes firms grow (Davidsson et al., 2010). The number of constructs associated with the firm's growth paradigm has severely fragmented the literature, impeding any generalizability of

[4] Accounting for 58.9% of the total UK employment and 51.9% of the aggregate turnover (source: government statistics)

findings (Wiklund et al., 2009). In addition, the constructs that have attracted most of the attention (e.g. entrepreneurial, human and social capital) have been accused of being rather static and inapt to “explain changes in incremental performance, even though [they] may be linked positively to average performance” (Storey 2011: 307).

When it comes to small firms that accomplish high-growth in adverse conditions, the picture becomes even more obscure. Only a handful of studies have simultaneously taken into account the roles of both the environment and size (Delmar et al., 2003, Covin and Slevin, 1989, Covin et al., 1990). Nevertheless, “the evidence suggests that firm growth is to a certain extent externally determined” (Davidsson et al., 2007: 369), and thus, growth cannot be viewed in isolation. Meanwhile, the current economic climate adds additional urgency to the desire to understand what enables firms to expand under such conditions. Hence, in the current study we explore how specific strategic activities influence and inform SME high-growth in the context of economic decline[5].

Strategy and Growth in Firms

The strategy–firm growth relationship has received much attention in the literature on strategic management and firm growth (Baum et al., 2001, Durand and Coeurderoy, 2001, Coad, 2009). Despite the numerous studies, the results have often been inconclusive. The literature focusing on SME growth is equally inconclusive although some common arguments have risen (Gundry and Welsch, 2001, Covin et al., 1990, Hansen and Hamilton, 2011). For example, Gundry and Welsch (2001) claimed that

5 Of course strategy is not the only factor contributing to high-growth; unique resources such as the quality of human capital, patents, tacit knowledge, networks etc. are pertinent to a firm’s success. Yet unique resources alone are not sufficient to achieve a competitive advantage; they need to be properly aligned together via a “plan”, the firm’s strategy (Mintzberg 1996; Mosakowski 1993).

high-growth firms pursue market expansion, technological change, and organisational development strategies. A decade later, Hansen and Hamilton (2011) concurred that growers are distinctively oriented towards a culture of innovation, flexibility, constant adaptability and learning.

Environment, Strategy and Firm Growth

The strategic-management literature was early to recognize the cyclical dependency between strategy formation and the environment. For example, firms form their strategy after evaluating the environmental conditions in respect to their expectations, general trends, past performance (Child, 1972), opportunity exploitation (Penrose 1959) and the specific attributes of the industries they address (Porter, 1980). Therefore, the strategy–firm growth relationship can be deciphered only in context (Davidsson et al., 2007). In light of the above, a substantial body of literature has concentrated on the "strategic-fit paradigm" in an attempt to identify the most successful strategies in each environment (Meyer, 1982, Smart and Vertinsky, 1984, Miller, 1988, Miller and Friesen, 1978). This literature proved to be controversial.

Miller and Friesen (1978) were among the first to empirically measure the complexity of the strategy–performance relationship in diverse contexts, providing a typology of six successful archetypes and four failing ones in different environments. It was demonstrated that in highly challenging market environments, most successful firms pursue differentiation via product or market (niche) innovation, and via constant organizational change. Although their typology was criticized for being too broad and for lacking detail and generalizability (Smith et al., 1989), their basic assumptions have been corroborated by several later studies.

Meyer (1982) reported that firms acting conservatively are less able to identify changes in the market and consequently fail to quickly adapt to them. On the contrary, firms that pursue more entrepreneurial strategies usually apply vigorous scanning procedures of the environment. They are thus, able to detect more quickly and accurately the “tremors” in the market, and “prepare for jolts” (1982: 528). Similarly, Miller (1988) showed that conservative strategies such as cost leadership are more appropriate in stable and predictable environments, whereas marketing differentiation or product innovation strategies provide better results under dynamic and uncertain ones. On the other hand, Smart and Vertinsky (1984) showed that in complex environments firms prefer retrenchment or adaptive strategies, whereas in simpler environments, entrepreneurial strategies are fostered.

Another strand within the literature concentrates on the importance of internationalization for firm growth (Buckley and Casson, 2007). After all, internationalization allows firms to increase their total sales volume, exploit economies of scale, enhance their customer base and reduce their dependency on home markets, avoiding sales fluctuations “associated with economic cycles or seasonality of demand” (Cavusgil et al., 2008: 389). There is some evidence that supports the premise that exposure to multiple markets and geographies (Pearce II and Michael, 2006) can help firms better manage declining environments.

Finally, the impact of recessions on the firm’s strategy and growth has also been explored (Geroski and Gregg, 1997, Pearce II and Michael, 2006). Even though economic recessionary periods differ in cause and outcomes from declining industries, their impact on firms exhibits certain similarities and as such can be considered a close approximation. It is self-evident that recessions typically affect firm growth and in some cases the likelihood of survival. As a consequence we observe severe finance-related effects due to limited cash availability, e.g. late payments, bad debts, reduced credit allowance (Smallbone et al., 2012), declines in demand and sales due to “low consumer confidence” (Geroski and Gregg, 1997: 36), increases of competitive rivalry in the market (Pearce II and Michael, 2006), and of course declines in profitability.

Yet, not all firms are affected equally during such periods. Indeed, Geroski and Gregg (1993; 1997) reported that the 1990s recession in the UK disproportionately affected some firms, while leaving others unaffected. They found that firms investing in new-product development, process innovation and training aimed at enhancing their competitive strengths and creating the foundations for future post-recession expansion, outperformed their rivals in their industry. In contrast, firms that engaged in cost-cutting practices or abandoned their investments plans were more severely affected and also experienced greater difficulties in recovering afterwards. Similarly, exploring the most recent recessionary period (2008-2009), Smallbone and colleagues (2012) revealed that the most resilient UK companies were concentrated on generating new revenue streams through either changes in sales and marketing practices or new products and markets development.

Size, Declining Environment, Strategy and Firm Growth

As we can see a consensus emerges on the prevalence of entrepreneurial and proactive strategies, but we should be cautious about generalising the results as the findings are almost exclusively based on research into large firms. Yet “small firms are not simply scaled-down versions of large firms” (Storey, 1989: 175). The significant differences between small and large firms render any generalisation futile (Storey and Greene, 2010, Coad, 2009).

The advantages of larger companies over their smaller counterparts (economies of scale, access to capital, broader investment options, increased bargaining power etc.) suggests a positive relationship between firm size and their overall performance in declining environments (Miller and Toulouse, 1986). Large firms can better withstand external shocks and shield themselves against economic downturns, prolonged declines in sales or price wars. Conversely, small firms are often resource- constrained and tend to be more vulnerable to adverse conditions. Pearce and Michael (1997), among others, reported that the smaller manufacturing firms were those that suffered the most during the 1991 recession. Nonetheless, small firms, being typically more flexible and adaptable to changing environments, can focus on specific niche segments of the market (Mosakowski, 1993, Durand and Coeurderoy, 2001, Pelham, 2000). Such strategies have been proven to lead firms onto different growth paths from their larger counterparts (Pearce II and Michael, 1997). In fact, small entrepreneurial firms often find that periods of vigorous changes offer an opportunity to overcome structural barriers and to step into markets that their larger competitors overlook (Porter, 2008).

Very few scholars have empirically explored how small firms can better deal with declining environments. A noteworthy exception is the study by Covin and Slevin (1989), which examined the impact of environmental hostility on 161 small firms in 25 manufacturing industries. They verified not only the significant impact of environmental hostility on firm performance, but also its influence on the strategy–

performance relationship. They showed that firms pursuing more entrepreneurial strategies performed best in hostile environments. Similarly, Desarbo et al. (2005) examined 709 small business-units in three different countries (China, Japan and the US); they discovered that under stable market conditions the leaders tend to pursue more conservative strategies. Conversely, in highly uncertain conditions, the more entrepreneurial and innovative firms achieve better results.

The above theoretical and empirical arguments suggest that the right strategies can protect even small firms against a declining environment; in the words of Stopford & Baden-Fuller (1992: 13) "...the industry is not to blame for any shortcomings in firm performance. Successful firms ride the waves of industry misfortunes; less successful businesses sank with them". Hence the objective of this paper is to extend firm-growth theory by uncovering strategies that can help SMEs in the UK to grow, even when operating in poorly-performing industries.

Methodology

Measuring growth

It is common in the literature to use both financial and non-financial measures to assess firms' growth. Sales growth, profitability and market- or asset-value indices are among the prevalent financial measures (Venkatraman and Ramanujam, 1986), while employment growth (Davidsson et al., 2007) and managerial perceptions of growth (Collins and Clark, 2003, Penrose, 1959) are among the prevalent non-financial ones. Yet, when it comes to small-firm growth, most of the above measures have been rendered inapt. Accounting and profitability measures have been accused of being easily manipulated for tax-evasion purposes, while they also seriously differ across industries (Delmar et al., 2003, Hawawini et al., 2003). Market-value ratios are difficult to calculate for small, private, and unlisted firms. Asset measures are also related to capital intensity, impeding the comparison among industries (Davidsson et al., 2007). Managerial perceptions of growth are highly subjective and biased, hindering the comparability among studies. Finally, employment growth - despite being a commonly used growth indicator - is largely affected by "labour productivity increases, machine-for-man substitution, degree of integration, and other make-or-buy decisions" (Delmar et al., 2003: 194). It is also the measure least favoured by practitioners (Coad 2009).

In this study, we choose relative sales growth as our measure of high-growth performance. Relative sales growth has been the most used measure of small-firm performance (Davidsson et al., 2007); it is easily accessible, applies to all firms, is insensitive to capital intensity and is also the indicator preferred by managers and practitioners (Delmar et al., 2003). It has also been suggested that if only one indicator is to be used and the study has a cross-industry design, the most desirable one is sales growth; not only do firms need sales to survive, but sales "often precede the other indicators" (Davidsson et al., 2007: 366).

Data Sample

Birch has defined high-growth firms as those firms that "achieve[d] a minimum of 20% sales growth each year over the interval, starting from a base-year revenue of at least $100,000" (Birch et al., 1995: 46). This definition has received great criticism, since it assumes one growth pattern for all high-growth firms and is mainly focused on newly established firms (Delmar et al., 2003). In our study, we define as high-growth firms those long established firms that despite operating in declining industries present both consistent and outstanding growth during the examined four-year period – Y_1 to Y_4. Consistently growing[6] firms are defined as those firms that not only exhibited positive sales growth during the examined period and had never experienced negative sales growth in any of the years[7]. Furthermore, firms exhibiting outstanding growth are those that not only reported consistent growth, but also diverged[8] from the negative industry trend by more than 50%. This last criterion was used to exclude those firms that might have out-performed others due to chance.

Considering the unpredictable nature of high-growth performance and particularly the difficulty in maintaining such a momentum for long (Barringer et al., 2005, Parker et al., 2010, Storey, 2011), the two criteria set for our sample selection represent unique features that can relate only to firm-specific characteristics, such as strategy. The selected firms, not only grow for four consequent years, but they further grow against the odds, out-performing the sectoral norms. This unique pattern can be further appreciated when taking a closer look at the growth patterns depicted in Table 1. Fewer than half (46%) of the growing firms manage to maintain growth serendipity for a maximum of four years. When accounting for the second criterion – out-performing a declining sector by a rate of 50% –, a mere of 308 outstanding growing firms remain across a total of 43 declining SIC4 sectors.

------------ Insert Table 1 about here ------------

6 Firm growth Y4 = (Turnover per firm Y4 - Turnover per firm Y1) / Turnover per firm Y1.

7 This criterion was applied to answer criticism of growth patterns mis-specification: “the use of only first-year and end-year data for growth calculations … models growth as one giant leap and makes the calculation overly sensitive to stochastic variation” (Davidsson et al. 2004)

8 Divergence Y_4 = Firm Growth Y_4 – Industry Growth Y_4

We contacted all 308 firms initially by post, followed up by a second letter and subsequent phone calls. Our initial study sample was formed by the first 30 respondents who agreed to be part of our research project and owned or ran firms in different sectors. In the end we used only 20 of them[9] (Table 2). We chose to include firms from different sectors to minimize sectoral biases and to allow diversity. Despite differences associated to industry-specific characteristics, we hope that such an approach will help us reveal common patterns that are specifically attributed to the declining nature of the environment.

-----------------------Insert Table 2 about here -----------------------

Research strategy

The aim of this paper is to extend existing theory on small-firm high-growth strategies by examining them in a different context. Since little empirical evidence exists on the strategies driving firm growth in declining industries, we apply an inductive multiple-case study approach. Such an approach can provide us with a better understanding of the unexplored dynamics of the phenomenon (Eisenhardt and Graebner, 2007, Yin, 1981). Multiple-case studies are preferred because they provide a stronger base for theory building: ”…the theory is better grounded, more accurate, and more generalizable (all else equal) when it is based on multiple case experiments” (Eisenhardt and Graebner, 2007: 27).

[9] To allow better comparison among the companies in the study, we excluded firms that despite being categorised as SMEs in turnover terms, they were ‘micro’ in terms of employees.

To gather the necessary data for our analysis, we conducted a series of face-to-face interviews with owners or senior managers of each examined firm. A semi-structured questionnaire was employed to enable comparisons among the responses and at the same time allow for personal opinions. The interview time varied from 45 to 90 minutes. The interview concluded with an open-ended question about the interviewees' overall opinion regarding the environment dynamism, the prime facilitators of success, and their plans for future growth. The primary data were further supplemented with secondary sources of archival data such as databases of published financial information, websites, companies' newsletters, industry competition reports and news articles about the companies. Unobtrusive observations, e.g. from tours around the premises of the company, including production facilities and operations, and unstructured conversations with employees were also employed to validate the reliability of the information collected.

Data Analysis

Given the extensive amount of data (both primary and secondary) gathered for each company, it was necessary to codify these into succinct categories that could then be used to classify and profile the companies in our sample. This could further facilitate the comparison of the findings from each case study. We thus employed a three-step approach:

i) Following Eisenhardt and Graebner's (2004) suggestions on the need for data triangulation, we built individual case studies employing data from both primary (transcripts) and secondary resources to classify the examined companies according to their common characteristics. The analysis was conducted through a *within* and *cross-case* approach (Eisenhardt and Graebner, 2004)[10]. The *within-case* analysis incorporates the study of each case separately, allowing for better familiarization, recognition of patterns to emerge, and comparison among cases (Zott and Huy, 2007). The *cross-case* analysis explores relationships and common patterns among the different cases to identify possible similarities and differences among the examined companies on specific constructs.

ii) The second step of our analysis identified common characteristics and patterns emerging from the previous step, resulting in four themes[11] of strategic focus, explored through certain first-order characteristics/sub-strategies, as shown in Table 3 (Corley and Gioia, 2004)[12]:

<u>Strategic Theme 1: Focus on Cost</u>

We identified three sub-strategies connected to this theme: (a) cost efficiency strategy with a focus on low production costs, cost monitoring systems, (b) low pricing strategy, and (c) core technology/service, particularly on those technologies or services the firm was most proficient.

<u>Strategic Theme 2: Focus on Differentiation</u>

We identified four sub-strategies connected to this theme: (a) innovation priority with a focus on constant development of new products/services or processes, etc.,

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10 The authors proposed this technique as the most appropriate for exploring relationships among different cases

11 Although some of the themes are clearly inspired by Porter's (1980) generic strategies, they are all adapted to the specific characteristics of smaller companies. After all, it has been pointed out in the past that mainly larger firms with the necessary capital to exploit economies of scales and scope could benefit from the implementation of pure generic strategies (Miller and Toulouse 1986; Mintzberg and Quinn 1996).

12 Our approach has been influenced by Corley and Gioia (2004), despite the substantial differences in both content and conceptualization.

(b) ad-hoc innovation typically following customer initiatives, (c) premium pricing, and/or (d) marketing differentiation, with a focus on the company's image.

Strategic Theme 3: Focus on Customization

We identified two sub-strategies connected to this theme: (a) product/service customization and high-quality, and (b) market customization (market-niche strategy)[13]

Strategic Theme 4: Focus on Internationalization

We identified two sub-strategies connected to this theme: (a) high market expansion, e.g. expanding domestic markets and entering new international markets, and (b) minimal to non-existent market expansion and focus on the domestic market.

It is noteworthy to add here that the above strategic themes are not considered to be mutually exclusive but, on the contrary, are "independent choices" (Mosakowski, 1993: 826). Hence it is expected that each company will simultaneously pursue more than one of the strategic themes identified above.

------------ Insert Table 3 about here ------------

iii) The final step of our analysis included the company classification according to the first order codes and the four generic strategic themes identified in the previous step. Although we acknowledge that these four themes are not inclusive of all the

13 The firms that pursue market-niche strategies attempt to capture only a part of the whole market, geographically or demographically.

strategies that can be adopted by small firms in different sectors, they were the most prevalent among the investigated firms.

To minimize subjectivity biases and provide a reliable interpretation of the interview findings we used all our secondary resources as shown in Table 4. For example, HeatCo is among the companies that reported adopting a tight cost control strategy. This was observed in-house, but further corroborated by comparing and contrasting main catalogues the company produced with those of the competition. Despite not being the least expensive, the company kept low prices in almost all its components. Similarly, RoadCo asserted that it developed an in-house, innovative and unique method of enhancing productivity and customer satisfaction. We were personally introduced to the software and its attributes whereas we had the opportunity to talk with several employees in the company and validate the above arguments. In addition we explored online similar attributes of the competition and did confirm the pioneering position of the company in the sector.

Similar actions were taken to confirm the strategies adopted by each company. When possible, external consultants associated to the companies were also interviewed. For example, a financial advisor was shortly interviewed in the case of CraVatCo, and in the case of HeatCo, a Venture Capitalist.

------------ Insert Table 4 about here ------------

Inspired by past attempts of similar classification schemes (Miles et al., 1978, Miller and Friesen, 1978, Walker and Ruekert, 1987), we constructed clusters of firms with respect to their focus on differentiation via innovation and product-customization strategies (see Figure 1), their focus on differentiation via innovation and cost-focus strategies (Figure 2) and their focus on the domestic and international markets (Figure 3) -- the most popular strategies adopted among the sample firms.

------------ Insert Figures 1, 2, 3 about here ------------

Findings

The analysis of Figures 1, 2, and 3 above reveals some very intriguing results regarding the strategies employed by the investigated high-growth SMEs. Most firms employ a multiple-strategy approach, simultaneously pursuing a differentiation strategy via innovation or marketing focus and a product-customization strategy. As depicted in Figure 2, only three companies fall into the bottom-left corner of the diagram – pursuing neither strategy – while ten companies pursue both (and so appear in the top-central and top-right cells). At the same time, most companies are also highly cost-conscious and, although they are not the cost leaders in their market, they do strive for low production costs and competitive prices. Indeed, from Figure 1, we can see that only three companies seemed to be indifferent to low-cost/pricing strategies, most likely due to the unique nature of their products/services. With respect to international focus, six companies follow that path, exhibiting an exposure of more than 30% in the international arena. Finally, only a couple of companies pursue a market-niche strategy, focusing on specific segments of the international or domestic arena (Figure 3).

Strategic Theme 1: Focus on Cost

All the examined high-flying firms place great emphasis on maintaining low production costs, and consequently keeping their total prices at a competitive level:

> *Cost is very critical because we have to compete now with cheap copies made in various parts of the world... (TestCo)*
>
> *The idea of Six-Sigma was imperative because we had to cover our customers' demand for better, cheaper products. (HeaTCo)*
>
> *Although we don't focus on keeping the costs down, we give serious considerations so that the potentials versus the costs are much higher. (PaCKaGeCo)*

Yet none of these companies claim to be the cost leaders in their industries and only six monitor closely their costs in every step of their operations (CraVatCo, CeRAmCo, PaCKaGeCo, TestCo, HeaTCo and RoadCo). These six are mainly manufacturing companies that place great emphasis on the production efficiency and therefore, have invested in automations and sophisticated information technologies. Some have even invented novel in-house ways of monitoring and enhancing their operational efficiency. For example, RoadCo has developed information technology systems to minimize the time and labour required to process the inflow of information, and so to promptly address customer orders and requests:

> *In our business time matters the most.. that is one reason why we were so successful in the past. Our achievement of this month is a response rate of 3 seconds….to achieve that, our IT department built an internal system from scratch, linking all the departments together…and sending all necessary information to the interested parties, promptly and accurately. (RoadCo)*

It is noteworthy that although the majority of the companies stated that low costs are desirable, they also claimed that they would not compromise on quality for the sake of lower prices. Consequently, most of them reported having higher prices than their counterparts in their industry, while attributing their success to the superior quality of their products/services:

> *Quality for us is very important. We are not the cheapest. In fact if you put our competitors at the same table, 9 times after 10 we will be the most expensive. But fortunately there are enough people out there who still want to buy a quality product. (TestCo)*
>
> *In terms of prices, we try to keep them as low as possible but you get what you pay for. It is a very competitive market but I would not jeopardize the quality of the products for the sake of price. (PumpCo)*

Strategic Theme 2: Focus on Differentiation

<u>Innovation</u>

Along with the focus on costs and efficiency, 13 firms simultaneously pursue differentiation via product/service or process innovation strategy. Five (HeaTCo, LABCo, CraVatCo, PaCKaGeCo and TestCo – all manufacturing companies and amongst the largest in the sample [14]) focus heavily on both product and process innovations. The manufacturers devote a substantial percentage of their annual revenues to constantly improving their production processes and to implementing new product-development ideas. Most of the times, these activities are mutually supportive: new products generate the need for new processes, while new processes provide insights into, or prospects for new products:

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[14] HeaTCo is the largest company among the 25, with £20.2 million turnover for 2005

Continuously changing business is absolutely essential for the company's success. (TestCo)

We always try not to make a product which is similar to another product which is already in the market. So it always has to be innovative, because the cost of our products in the market is very high. (LABCo)

It is noteworthy that HeaTCo and CraVatCo, admit past distress; they had both undergone a complete turnaround just before the examined period; this included substantial changes in operations. The operational features that had innovated throughout the years in each company included new machinery, automated production processes, customized control and reporting systems based on the Lean or Six-Sigma manufacturing principles, and new information technology and communication systems. While the above manufacturers concentrate both on improving their production processes and on constantly introducing new product lines, FRoZeNCo and RoadCo concentrate mainly on process innovations in an attempt to constantly enhance their operational efficiency and the overall quality of their services:

We are very bent on finding solutions to problems or even creating new ways of working…we used technology to solve our problems and become more tailor-made to our needs and that helped a lot in developing our business. (FRoZeNCo)

In contrast, BeautyCo, PumpCo, CeRAmCo, MetaLCo and BageLCo innovate only on an ad hoc basis, when customers present special requirements that cannot be satisfied by the available product lines. For example, CeRAmCo recently collaborated with a university to develop new raw materials for a new range of products. This has been an initiative based on customers' special needs.

The company, although it hasn't got its own R&D department, has lately collaborated with a university in order to produce new raw materials for its products. It is a new initiative based on the premises that the company knows exactly what its customers need and want, and wishes to produce specific products that answer to their requirements (CeRAmCo)

<u>Marketing</u>

Marketing differentiation is not a very common strategy among the examined over-performers. The majority prefer indirect marketing activities, focusing on personal relationships and word of mouth rather than on advertising and direct promotion via TV, radio or the press. More specifically, 15 out of the 20 firms in our sample reported non-existent or very low marketing activities, usually directed towards the existing customer database. Most of these companies used either their sales team or the internet to maintain close contact with their customers and to keep them informed about new products and services.

Only five companies in our sample exhibited specific focus on marketing differentiation: three are manufacturers (HeaTCo, CraVatCo, and LABCo), one a service company (TraveLCo) and the other a UK distributor for the products of a parent company (BeautyCo). All have well organized marketing departments, occupied by specialists in marketing, and annual budgets to cover all their marketing expenses. Yet, even for these firms, the most important part of their marketing policy remains the personal relationship with existing customers.

---------------------- Insert Table 5 here ----------------------

Strategic Theme 3: Focus on Customization

Product Customization

The majority of the over-performers examined (13 cases) also pursue some form of product-/service-customization strategy. More specifically, eight firms offer complete solutions customized to their customers by working very closely with them in order to clearly identify their needs and to produce the products or services that best fit these. Among them, three are service companies (MotorCo, TraveLCo, and FRoZeNCo) and five are manufacturers (CeRAmCo, PaCKaGeCo, TestCo, HeaTCo and LABCo); the latter have been equipped with parameterized automated systems, allowing them to effectively alter their product lines according to the criteria set by their customers. There are also five more firms (LatinCo, BageLCo, MeTaLCo, InSuRCo and PumpCo) that, despite trading more standardized products and services, also provide incremental alterations or complementary services and products when needed in order to better accommodate customer needs.

> *Most of our customers are looking to book a holiday which will be a pleasant experience for them. But that doesn't always mean that they know what they want and we try to understand what they really want and provide them with the best deal they can have...This is our added value (TraveLCo)*
>
> *By providing unique solutions to our customers, tailor-made to their needs, we have achieved a sustainable growth during the years. We try to satisfy their needs, substantiate everything we say and stay accountable. (MeTaLCo)*

The remaining firms, which provided no evidence of product customization, operate in retail industries (such as food, beauty, insurance and power), and trade highly standardized products.

Market Customization (Market-Niche Strategy)

With respect to market focus, most companies in our sample address the entire market rather than specific segments of it, mainly in an attempt to avoid the risk of over-reliance on a narrowly defined market or on very few customers. There are only five firms specializing in highly distinctive market niches: LatinCo, BageLCo, AssetCo, PowerCo and FRoZeNCo. More specifically, LatinCo concentrates on very specific foreign markets such as Latin America and South Africa, where their rivals have little market access due to communication and regulation obstacles:

> *When I created the company there was a gap in the market, where the service was provided by the brokers. There wasn't any personal service… and because of that they haven't been so successful. I bridge that gap with good service, good relationships and good prices.*

BageLCo concentrates on producing mainly bagels rather than operating in the snack food industry overall; that segment of the market is fairly new in the UK, has the least competition, and enjoys increasing demand. FRoZeNCo has identified the market niche where its products could best be appreciated:

> *Very early, I felt that the kind of products I was selling as well as the more specialized range of frozen foods required demonstration to be sold. And that is what I did... So I define my market fairly carefully. (FroZeNCo)*

AssetCo concentrates on the asset management of smaller companies in both domestic and foreign markets: a market that their bigger competitors consider too risky.

> *Specializing in smaller companies is our differentiation and we find it very rewarding… in that area you get the less perfect markets and so we can identify and exploit market imperfection.*

PlanTCo is highly locally segmented due to the nature of its business, whereas PowerCo – focusing on an almost uncharted market – was from the beginning able to capture a large part of its market share, which has been retained since.

> *At the time we began there were only 50 possible customers because in order to be allowed to trade in these wholesale markets, in order to be a generator or a customer supplier, you have to have a licence... What that meant was that there was a relatively small market. (PowerCo)*

Strategic Theme 4: Focus on Internationalization

The majority of the over-performers examined have little international exposure. Apart from three companies that generate more than 75% of their turnover on the international arena (LatinCo, TestCo, and LABCo), the remaining companies either do not export at all or at very low levels (see Table 6).

----------------------- Insert Table 6 here -----------------------

Different factors led the three international companies in that direction. LatinCo focused on the market niches of Latin America and South Africa because it identified exceptional opportunities for expansion and limited competitive rivalry from their domestic counterparts. On the other hand, TestCo started exporting after the collapse of the textile industry – which severely affected many of its customers and disrupted the demand levels for its products – to compensate for the lost market share. Finally, LABCo generates only 25% of its total turnover in the UK market, while the rest is spread between the US and Europe. The company's decision on internationalization is closely linked to its expansive strategic plans, whereas diversification into various markets is its defence strategy against potential economic crisis in a single market.

A unique case is CraVatCo, which – despite generating just 10% of its total turnover abroad – produces 90% of its products in China. The firm was driven to heavy outsourcing due to the saturation of the UK's domestic textile market and the consequent deflation of prices. The other firms reported few or no exporting activities mainly due to the high costs of transportation, competition in the foreign market or market unfamiliarity. It is worth mentioning that all the firms exhibiting some international exposure not only expressed their intention to increase this in future, but also provided plans for potential collaborations in that direction.

> *We currently focus on the UK environment but once we have reached the saturation point then we will go overseas (BageLCo)*

Discussion

This paper offers a critical analysis of the strategies employed by established SMEs that manage to thrive within the context of declining industries. The phenomenon of achieving high-growth in an adverse market environment has received some attention in the past but has produced mixed interpretations. As already indicated though, the current economic climate adds significant urgency to understanding how companies through the strategies they adopt can thrive even in such difficult market conditions. Building on established theories of small-firm growth and strategic-management research, this study provides empirical evidence which contributes to this underdeveloped subset of the strategy literature.

Acknowledging the limited past research on this phenomenon, we have adopted an inductive case-analysis approach and focused on the four key strategic themes identified through the data analysis: focus on cost, differentiation, customization, and internationalization. It has long been indicated that a well specified strategy is pertinent to achieve a competitive advantage (Porter, 1980). Our analysis shows that a single strategy appears not enough to beat a declining market for long, corroborating Miles and Snow speculations that a rich mix of competitive strategies is prerequisite to long term growth (Miles et al., 1993, Miles et al., 1978). Past studies have provided some empirical support for the prevalence of multi-dimensional or 'hybrid' strategies against single, generic strategies (Spanos, 2004), but this study helps inform the strategic management literature by confirming the prevalence of mixed strategies in declining environments.

Indeed, it is easily distilled from figures 1, 2 and 3 that SMEs in declining industries achieve high growth by concurrently pursuing multiple strategic combinations. Interestingly, while these strategic choices are highly influenced by the sector and the size of the firm, certain common patterns are clearly revealed. It appears that the prevailing strategic combination among the investigated high over-performing firms is the simultaneous pursuit of differentiation via innovation and some form of product-customization strategy. Meanwhile almost all companies maintain costs at the lowest possible level. These findings corroborate our assumptions that irrespective of sector-specific characteristics certain strategies can better facilitate high-growth during periods of economic distress.

In particular, we observe that most of the examined high-growth firms focus on some type of product, process or service innovation. The prevalence of innovative (entrepreneurial) strategies among the high-growth companies is not surprising in itself: such strategies have generally been found to lead to outstanding performance (Covin and Miles, 2007, Durand and Coeurderoy, 2001, Hansen and Hamilton, 2011). Yet in long-term declining industries, where resources are scarce and competition is high, these strategies seem to triumph over the more conservative ones. As Hansen and Hamilton report (2011), one factor that differentiates small growers from non-growers is their attitude towards exploiting opportunities in their environment. This study corroborates the above and expands the firm-growth literature by providing new empirical evidence to support the prevalence of entrepreneurial strategies in consistently declining markets. Only a small number of studies have explored firm growth during economic downturns. They also indicated that such strategies can help companies to effectively adapt to the changes in their environments and allow them to make a quick recovery afterwards (Covin and Slevin, 1989, Geroski and Gregg, 1997). The evidence was however not strong and our study helps to bridge this gap.

In addition, most high growers further pursue a product-/service-customization strategy. Their owners admitted that such a strategy enables them to maintain close contact with their customers and to first address new market trends. Indeed, as smaller firms are closer to the customer, they can attain a better understanding of their needs, adapt their products/services accordingly, and achieve the quality required (Nooteboom, 1994, Pelham, 2000). Therefore, by offering highly innovative and at the same time customised and unique solutions, smaller firms can "successfully compete with well-established incumbents…. avoid price competition… create new demand and, thus, facilitate firm growth” (Rosenbusch et al., 2011: 444).

None of our firms are cost leaders. This is as such not surprising and well documented in the literature, as small firms lack the scale to exploit economies (Miller and Toulouse, 1986, Baum et al., 2001). Nonetheless, they all stressed the importance of a low-cost strategy; they provided evidence of cost control systems, and all avoided price wars with their competitors. They preferred building up a reputation for providing better quality rather than better prices. These findings accord with previous empirical studies supporting the importance of low-cost strategies, irrespective of the core strategies employed (Olson et al., 2005). Thus, we confirm and enrich the literature by showing that innovative and highly tailored strategies are pertinent for the success of a small firm in adverse conditions, conditional upon being accompanied by low-cost tactics.

Marketing-differentiation strategies however, seem to be generally disregarded by our sample firms. In particular, several of the high-growth owners avoided traditional marketing strategies due to the required investment and limited short term benefit. The only firms that did place emphasis on these strategies were among the largest in our sample, indicating the need for substantial financial support for such activities. The above corroborate past findings showing a general disregard among small-business owners for traditional marketing tactics (Jones and Rowley, 2011). Whether this attitude is based on small-business owners’ lack of marketing skills (Hogarth-Scott et al., 1996) or the poor fit of traditional marketing strategies for smaller firms, is an issue that still needs to be resolved. The bottom line is that surviving in adverse environments is largely dependent on maintaining a healthy balance between revenue and expenditures, albeit sacrificing specific strategies in the process. Instead, tactics that are more "responsive and reactive to competition…[even] opportunistic in nature" (Jones and Rowley, 2011: 27), such as word of mouth, use of the internet, and networking, are adopted (Stokes and Wilson, 2006).

Similarly, and despite the popular notion that smaller firms tend to perform better when they focus on specific segments of the market or market niches (Mosakowski, 1993, Durand and Coeurderoy, 2001, Pelham, 2000, Powers and Hahn, 2004), only five of our over-performers followed this strategy. The majority of the examined high growers targeted the entire market quite aggressively, and utilized the turbulence of the market to their benefit in order to increase their market share:

> *…we targeted all the customers that we already had but very aggressively. Clearly we targeted the competition, we tried to understand what they were good at and what they were bad at and we just tried to be better than them. (CraVatCo)*

The above findings contrast with those in the established literature and provide new evidence of the aptness of market-niche strategies in different contexts. The safety net provided by serving market-niche segments is not a sufficient remedy for success in shrinking markets. On the contrary, as admitted by several high-growth owners, the risks of over-dependence on a narrowly defined market are substantial. Such a narrow focus during declining periods has been attributed to the demise of small firms (Birley and Westhead, 1990, Baum et al., 2001).

Finally, the majority of our over-performers also reported minor international exposure due to size limitations, unfamiliarity with the foreign markets, and other internal or external barriers (Leonidou, 2004). Therefore, most of the high-growth SMEs studied exhibited a determination to aggressively confront their declining environment and to grow domestically. This finding challenges the general perception that internationalization provides a definite escape path for firms in saturated domestic markets (Miesenbock, 1988, Hsu and Pereira, 2008).

Limitations and Future Research

As in all cases, this study comes with certain limitations. The main limitation is its four year timeframe which may raise concerns about the specific idiosyncratic market conditions and hence, the generalizability of the results. Nevertheless, there is no particular basis for claiming that the specific timeframe exhibited unique characteristics. Even though it proceeded the 2008-2009 recession, the contemporary economic condition in the UK was in general positive and presenting no early indication of the recession that would follow. Still a longer timeframe could further validate our findings and provide the foundations for theory building around high-growth sustainability. Such a research focus can also provide us with a better understanding of whether the identified here strategic combinations work not only in negative environments but also in growing ones.

In addition, and although we are convinced that strategy is pertinent to firm success and growth, we are cognisant to the influence of both serendipity and luck. Unfortunately, it is not possible in this study to identify the point when strategy takes over and either overrule the effects of serendipity or strengthen areas that serendipity cannot positively control them. To address this issue a longitudinal comparative work is required between a sample of growers and non-growers at two different points in time. Such a study could identify whether certain strategies are indeed to be blame for differences between the two groups and how much luck is affecting/moderating their overall impact.

Finally, since the study focused on identifying the most successful strategies in a declining context, it is difficult to explicitly exhibit that the strategies adopted were in fact intended. However, it has been strongly supported that to continuously grow it is pertinent to have a specific strategy informing your actions (Westhead and Wright, 2011). As a matter of fact, from a careful examination of the interview data, case studies and the supporting material, one can reasonably deduce that the adopted strategies in most of the examined cases were indeed deliberate. In the case of LABCo for example, the strategies pursued (constant innovative solutions, tailor made to the customer needs) required a considerable amount of commitment and a sizeable, long term investment, which can only be seen as intended rather than random and haphazard. Still future research focusing on the intended and implemented strategies under adverse conditions could further inform our assumptions.

Conclusions

In this paper, we argue that an adverse environment should not necessarily have a negative impact on firm growth. This is a particularly important topic nowadays, equally attracting the interest of academics, public policy makers and the government. In particular, we show that even the smallest firms can find ways to alleviate the negative effects associated with a declining environment and grow irrespectively. We show that the notion that one strategy alone is enough to help small firms grow during turbulent times is not sufficient but rather a combination of different strategies that best exploits their competitive resources might provide a better defence in the turmoil.

Take, for example CraVatCo, a manufacturer and wholesaler operating in the clothing industry: an industry that has been in decline for more than a decade due to the increased Asian competition. In light of the shrinking market shares, CraVatCo adopted a cost efficiency strategy, naturally dictated by the competitive forces in its industry, but – more importantly – focused on constantly differentiating itself from the competition through both design innovations and aggressive marketing activities -- strategies that have been proven to prevail in the UK clothing industry (Chell and Haworth, 1992). Today, CraVatCo is placed among the leaders of the UK markets, while other clothing manufacturers have perished in the process.

Finally, a rather unexpected outcome of this study relates to the role of the managers when strategizing against adverse conditions. It seems that the way a manager views the adverse environment can significantly alleviate any negative effect associated with it. Indeed, most of the managers we interviewed – while acknowledging the drawbacks of operating in a declining industry – claimed not to be intimidated by it. Unsurprising for entrepreneurs, they chose to view such an environment as a challenge and a source of numerous unexploited opportunities. They denied the conventional wisdom that in declining environments one should retrench and downsize, and embraced competitiveness, proactiveness, and aggressive sales tactics. This is further portrayed by the low popularity among the high-growers of the market-niche strategy and the unexpected prevalence of rather aggressive high-risk strategies, such as innovation and product development.

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Tables & Figures

Table 1: Growth Patterns of Sample Population

	Growing Sectors	Declining Sectors	Total
Sectors	334	180	514
Growing Firms	6,786	1,819	8,605
Consistent 4 year growth	*3,538*	*422*	*3,960*
Declining Firms	3,503	1,375	4,878
Number of Firms	**10,289**	**3,194**	**13,483**

Note:

1. The study is based on the FAME database of Bureau van Dijk Electronic Publishing, which provides annually updated information for firms registered in the UK, operating among 514 4-digit Standard Industrial Classification (SIC4) sectors. A sample of 71,750 firms of all sizes during 2002-2005 period was used to calculate the industry growth rates.
2. Industry growth Y4= (Turnover per sector Y4 - Turnover per sector Y1) / Turnover per sector Y1.

Table 2: Sample Overview

Company Alias	SIC4	Age*	No of Empl.	Sales (£ 000) Y_4	Firm Growth $Y_1 – Y_4$	Industry Growth $Y_1 – Y_4$	Divergence rate Y_4	Pr. BT** (£ 000) Y_4
HeaTCo	3410	100+	175	20,470	133.32%	-6.49%	139.81%	168
FoodCo	5139	56	152	19,250	41.53%	-17.01%	58.54%	703
FRoZenCo	5139	22	80	18,800	124.37%	-17.01%	141.38%	220
LABCo	2441	13	75	10,740	1145.59%	-30.15%	1175.74%	1,883
CeRAmCo	2625	22	240	9,580	53.06%	-11.99%	65.05%	2,224
PaCKaGeCo	2121	18	70	9,430	53.44%	-4.41%	57.85%	121
CraVatCo	1822	100+	72	8,910	88.16%	-13.38%	101.53%	13
TraveLCo	9262	32	38	8,380	62.63%	-0.558%	63.21%	207
BageLCo	5552	11	218	7,130	54.44%	-1.18%	55.62%	-321
TestCo	2954	100+	80	6,540	2.24%	-56.05%	58.29%	83
RoadCo	6720	9	115	5,980	218.53%	-25.06%	243.59%	326
PlanTCo	4550	14	100	5,250	50.43%	-2.77%	53.20%	222
PowerCo	3120	8	15	3,080	498.25%	-37.63%	535.88%	391
MotorCo	5040	24	15	2,980	35.60%	-29.41%	65.01%	139
BeautyCo	1589	29	249	2,230	48.03%	-5.87%	53.90%	325
AssetCo	6523	45	17	2,010	89.58%	-26.89%	116.47%	319
LatinCo	6720	8	13	1,980	1421.03%	-25.06%	1446.09%	1,036
PumpCo	2953	11	30	1,540	78.39%	-9.91%	88.30%	145
InSuRCo	6601	7	38	1,430	184.83%	-6.59%	191.42%	16
MetaLCo	2942	28	10	1,410	36.26%	-17.77%	54.03%	65

Note: The company names have been modified to secure their anonymity. For the same purpose the sales and profits before taxes of Y_4 have been rounded to the thousand. The companies have been ranked in descending order according to their turnover size.

* Measured in number of years

** Profit Before Taxes

Table 3: First-Order Characteristics

Focus on cost efficiency, e.g. focus on low production costs, cost monitoring systems	**A**
Low pricing strategy and stable prices	**B**
Premium pricing strategy	**C**
Focus on core technologies/services	**D**
Innovation priority, e.g. focus on developing new products / services or processes, research and development teams	**E**
Ad hoc innovative strategy, typically following customer initiatives	**F**
Focus on market expansion, e.g. expanding their domestic markets, entering new international markets	**G**
Focus on the domestic market	**H**
Focus on market penetration, e.g. focus on a specific target market (niche) and standardized products	**I**
Focus on product/service quality	**J**
Focus on product/services customization	**K**

Table 4: **Company Classification Analysis according to the First Order Codes - Use of the Interview Statements and Supplementary Data**

Company Name	Data Extraction	First-Order Codes										
		A	B	C	D	E	F	G	H	I	J	K
HeaTCo	*Interview*	✓		✓	✓	✓		✓			✓	✓
	Archival Data	✓				✓		✓				✓
	Observation	✓				✓					✓	✓
FoodCo	*Interview*	✓	✓		✓				✓	✓	✓	
	Archival Data											
	Observation										✓	
FroZeNCo	*Interview*	✓		✓	✓		✓		✓	✓	✓	✓
	Archival Data									✓		✓
	Observation	✓		✓	✓						✓	
LABCo	*Interview*	✓		✓		✓		✓			✓	✓
	Archival Data	✓				✓		✓				✓
	Observation					✓		✓			✓	
CeRAmCo	*Interview*	✓	✓		✓		✓	✓		✓	✓	✓
	Archival Data							✓			✓	
	Observation	✓									✓	
PaCKaGeCo	*Interview*	✓	✓		✓	✓		✓			✓	✓
	Archival Data					✓						✓
	Observation	✓									✓	✓
CraVatCo	*Interview*	✓	✓[15]	✓[1]	✓	✓		✓		✓	✓	
	Archival Data		✓	✓				✓				
	Observation										✓	
TraveLCo	*Interview*	✓		✓	✓				✓	✓	✓	✓
	Archival Data								✓			
	Observation										✓	✓
BageLCo	*Interview*	✓	✓		✓	✓			✓	✓	✓	✓
	Archival Data	✓				✓						
	Observation					✓					✓	
TestCo	*Interview*	✓		✓		✓		✓			✓	✓
	Archival Data	✓				✓		✓				✓
	Observation										✓	
RoadCo	*Interview*	✓	✓		✓				✓	✓	✓	
	Archival Data	✓										
	Observation	✓									✓	
PlanTCo	*Interview*	✓	✓		✓				✓	✓	✓	
	Archival Data								✓	✓		
	Observation										✓	
PowerCo	*Interview*	✓		✓	✓				✓	✓	✓	
	Archival Data									✓		
	Observation											
MotorCo	*Interview*	✓	✓		✓				✓	✓	✓	✓
	*Archival Data**				✓				✓	✓		
	*Observation***										✓	
BeautyCo	*Interview*	✓	✓		✓	✓			✓		✓	
	Archival Data				✓				✓		✓	
	Observation					✓					✓	
AssetCo	*Interview*		✓	✓	✓			✓		✓	✓	
	Archival Data									✓		
	Observation											

[15] Provided both low-cost product lines outsourced to China and premium lines produced in the UK.

Company Name	Data Extraction	First-Order Codes										
		A	B	C	D	E	F	G	H	I	J	K
LatinCo	*Interview*	✓	✓		✓			✓		✓	✓	
	Archival Data							✓				
	Observation									✓		
PumpCo	*Interview*	✓	✓		✓		✓		✓	✓	✓	✓
	Archival Data								✓			
	Observation				✓							✓
InSuRCo	*Interview*	✓	✓		✓				✓			
	Archival Data											
	Observation											
MetaLCo	*Interview*	✓		✓	✓		✓		✓	✓	✓	✓
	Archival Data								✓			
	Observation									✓		✓

Archival data include all other documents such as leaflets, online data, financial data, contracts, quality awards etc.

Observations on the day of the interview (tour around the premises and the production facilities, short discussions with other employees, etc.)

Note: Further details on the data from each source can be provided by the authors upon request

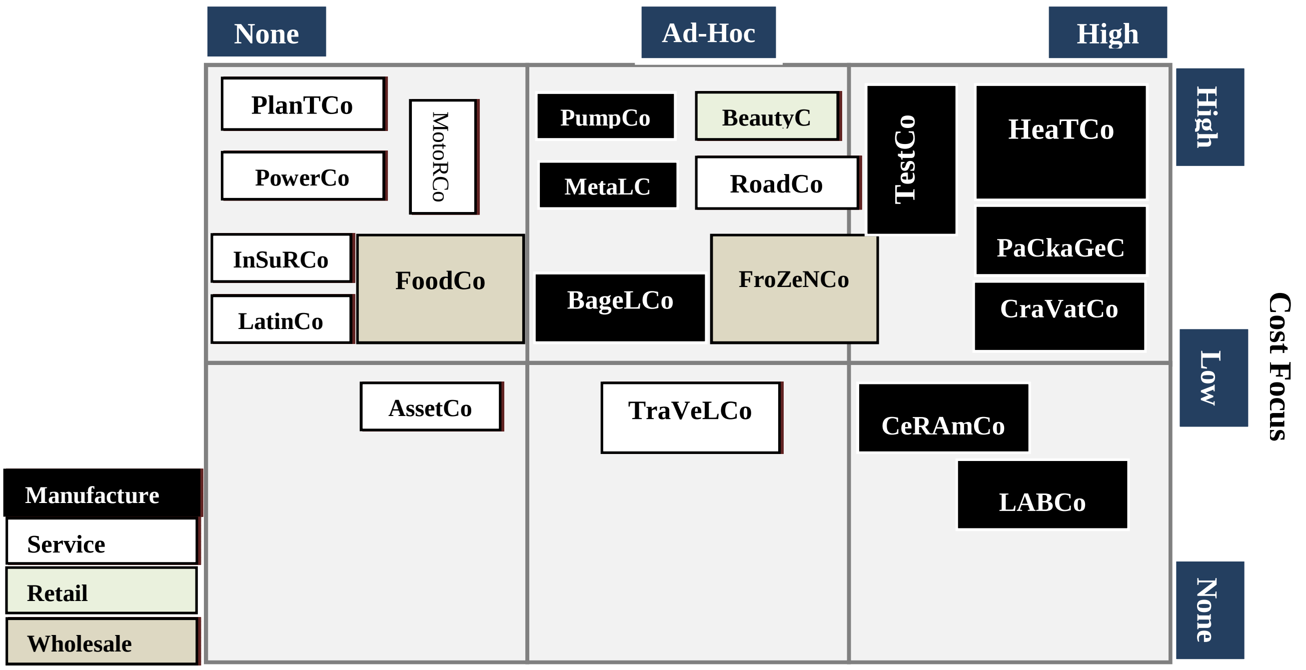
Table 5: Sample of Perceptions on Marketing Differentiation by the examined firms

Company Code Name	Interview Quotes
HeaTCo	*We do have an organized sales department which keep constant contact with all our customers; We run a customer satisfaction survey every year...we ask them annually about the same topics and try to improve according to the information they give us. PR however, is the most important element of our marketing strategy*
LABCo	*We have got a very small marketing department. Also a lot of our business comes through now from our website, which we constantly develop and change. Generally we tend to send our customers info for products that are specifically interested in*
FRoZeNCo	*We have never been strong in direct marketing. And a lot of our growth has come from word of mouth. It is a lot of networking that is going on.*
PaCKageCo	*Doing the right PR on the other hand, which this is what we are embarking right now, with a press release on all of our subjects in our website, can help develop a reputation and does bring calls.* *And of course the internet is also helpful in that respect because it allows somebody to discover what we are doing.*
TraveLCo	*The focus of our marketing has been the production of brochures which are mostly reminders of our existence. They are not simple brochures, but they look like books – some of our customers use them to decorate their coffee tables – they are better than many other travel brochures.*

Table 6: **Internationalization Exposure of the examined firms**

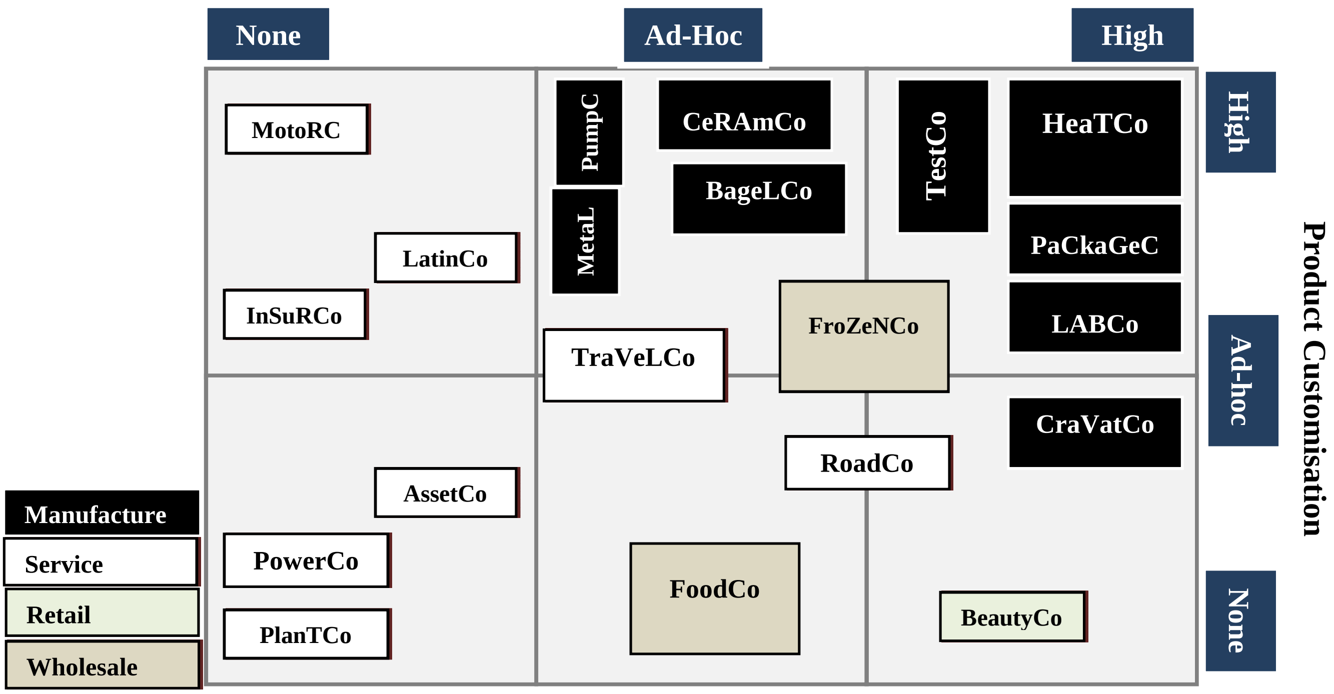
Company Code Name	SIC4	Domestic Sales	Exports (%)
HeaTCo	**3410**	**50–60%**	**40–50%**
FooDCo	5139	99%	1%
FRoZeNCo	5139	99%	1%
LABCo	**2441**	**25%**	**75%**
CeRAmCo	**2625**	**70%**	**30%**
PaCKaGeCo	2121	94%	6%
CraVatCo	1822	90%	10%
TraveLCo	9262	90%	10%
BageLCo	5552	100%	0%
TestCo	**2954**	**100%**	**90%**
RoadCo	6720	97%	3%
PlanTCo	4550	100%	0%
PowerCo	3120	75%	25%
MotorCo	5040	100%	0%
BeautyCo	1589	90%	10%
AssetCo	**6523**	**70–78%**	**22–30%**
LatinCo	**6720**	**0%**	**100%**
PumpCo	2953	85%	15%
InSuRCo	6601	97-99%	1-3%
MetaLCo	2942	100%	0%

Figure 1: Firm Cluster according to the Strategies Employed – Differentiation and Cost-Focus Strategies



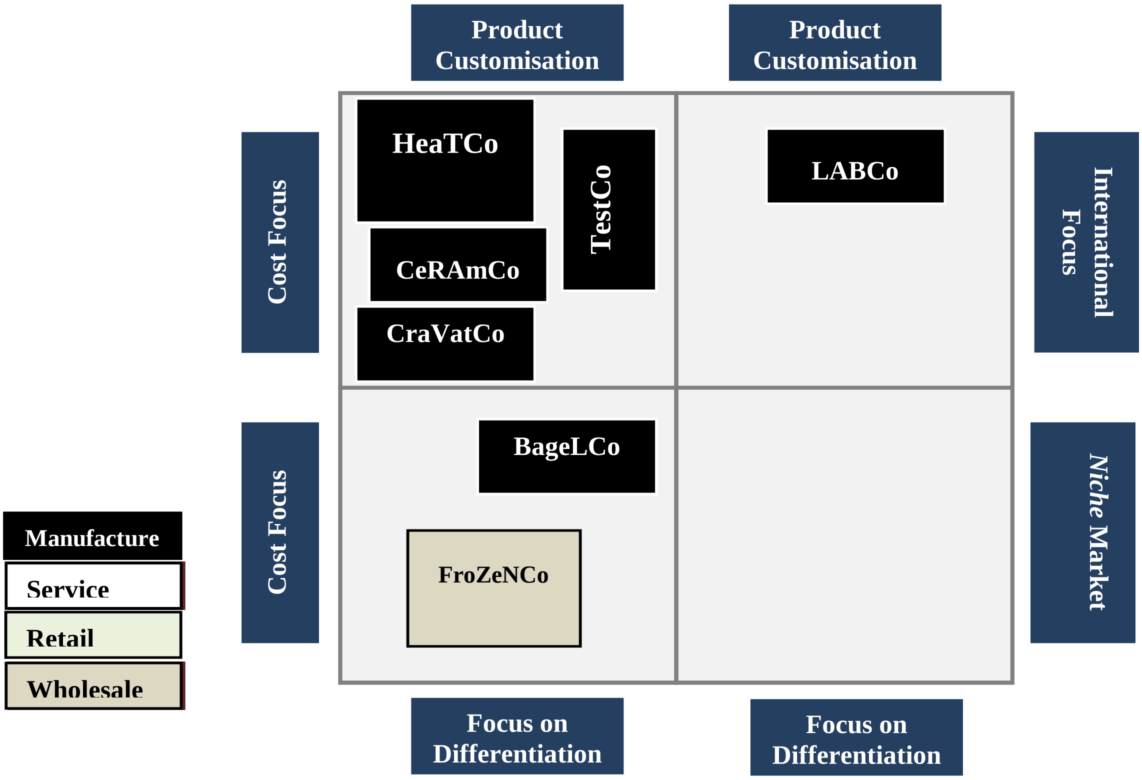
<u>Note</u>: *The size of the boxes is in proportion to the size of the firms.*

Figure 2: Firm Cluster according to the Strategies Employed – Differentiation and Product-Customisation Strategies



<u>Note</u>: *High Differentiation is the constant focus on innovative or marketing activities which would allow the firm to differentiate from the competition*

Figure 3: Firm Cluster according to the Strategies Employed – Differentiation, Product-Customisation, Cost-Focus and Internationalization Strategies



<u>Note</u>: *The upper-left quartile includes all companies that simultaneously pursue some type of differentiation-focus strategy and product-customisation strategy, are internationally oriented and place great emphasis on cost efficiencies. The upper-right quartile includes all companies that simultaneously pursue some type of differentiation-focus, product-customisation strategy, and are internationally oriented, but place little emphasis on cost efficiencies.*

The lower-left quartile includes all companies that simultaneously pursue some type differentiation-focus and product-customisation strategy, place great emphasis on cost efficiencies and focus on very specific segments (niches) of the domestic or international market. The lower-right quartile includes all companies that simultaneously pursue some type of differentiation-focus and product-customisation strategy, place little emphasis on cost efficiencies, and focus on very specific segments (niches) of the domestic or international market.