Resources and Financial Success – Perspective of Finnish Sawmills and Wood Construction Firms

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Contents of Presentation

- ’Combined’ research plan for two METLA projects with similar theoretical basis – both projects just beginning
- At common level from the aspect of firms and business networks
  - Concepts
  - Theories
    - Resource Based Theory
    - Resource Advantage Theory
- Concepts and theories in connection to the two ’separate’ projects concerning woodworking firms
  - Sawmills (firm-level)
  - Wood construction industry (network-level)
Competitiveness

- Business strategy: the means for receiving the competitive advantage

- Competitiveness
  - *in the short-term: cost-efficiency of current products*
  - *in the long-term: cost-efficiency and value-added of future products*

- Competitive firm: long-term profitability above the industry average

Business Performance

- Performance measurements
  - *Financial measures: information of the success of the business strategy ('past')*
  - *Non-financial measures: support for future decision making ('future')*

- Causal connections between the past and future can be assessed by combining the financial and non-financial parts
Resource Based Theory (e.g. Barney 1991)

- Resources are the starting point for strategy formulation
- Competitive advantage is obtained with strategies that
  - respond to external opportunities by exploiting internal strengths
  - neutralize external threats and avoid internal weaknesses
- Competitiveness is built with resources
  - valuable
  - rare
  - imperfectly imitable
  - with no strategically equivalent substitutes

Resource Advantage Theory (e.g. Hunt & Morgan 1995)

- Comparative advantage in resources is the basis of competitive advantage
- Tangible resources
  - All physical assets other than labour and cash
- Intangible resources (‘core competencies’)
  - Financial
  - Legal
  - Human
  - Organizational
  - Relational
  - Informational
- ’Learning cycle’
  - Performance measurements
  - Business strategy
  - Resource utilisation
Business Networks – What and Why?

- Business networks are composed of groups of firms
  - in vertical and/or horizontal relationships
  - with one or more common aims derived from firm-level business strategies
- Business networks: a possibility for enhancing competitiveness by
  - improving efficiency
  - creating new value-added

Business Networks – Performance Measuring

- Financial performance of a business network
  - competitiveness of each partner
  - competitiveness of the whole group
- Financial and non-financial information is needed in business networks for
  - controlling and planning
  - creating and supporting trust
- Performance measurements problematic
Resources and Resource Advantage in Business Networks

- Creating network-level value-added based on
  - Firm-level ‘core competencies’
  - Relationships between partners

- Network relationships
  - Enable combining firm-level ‘core competencies’
  - May become network-level ‘core competency’: an intangible resource for the whole group

- Network-level ‘core competencies’ are the core of network competitiveness

Resources and Financial Success of Finnish Sawmills

- Internationalisation is changing the business environment of Finnish sawmills
- ‘Old’ strategies don’t necessarily work anymore
- The main objective is to find out by which means the firms in the branch have acquired ‘good’ financial success, and what factors have affected on it
  - What might be good ways to do business in the future?
Research Questions

- Resources available affect on the strategic choices and vice versa
  - What kind of strategies are used in sawmills?
  - What are the tangible and intangible resources 'needed' for certain types of strategies?
  - What are the 'weights' of different resources within firm’s resource base in implementing a certain strategy?

- Links between strategic choices and financial performance
  - Have there been differences in financial success between firms implementing different types of strategies?
  - What are the factors explaining the differences in financial success between the firms with similar strategies?

Networks of SMEs in Wood Construction Industry

- Co-operation an important possibility to enhance the competitiveness of wood construction firms
- So far there have been problems e.g. in trust between co-operative partners, management know-how, and attitudes
- More information is needed of
  - Forms of co-operation in the branch
  - Management methods used at firm- and network-level planning and controlling
  - Financial success of different forms of co-operation
- The main objective is to find out what are the ‘practical’ forms of co-operation that have enhanced competitiveness and financial success of firms in the branch
Research Questions

- Business networks as a part of business strategies
  - What kind of networks exist, and are certain types of resources acquired via (certain types of) business networks?
  - How the decisions concerning resource acquirement are made?

- Success in networking
  - What are the critical areas in co-operation, and how the 'problems' are solved?
  - How the success of business networks is monitored, if so?

- Links between networking and financial performance
  - Are there differences between firms participating in different types of networks?
  - Are there differences between firms acquiring different resources via business networks?

- Models of successful co-operation
  - What have been the successful business strategies in terms of resource acquirement and models of co-operation?

Material and Methods

- Material of both projects consist of qualitative and quantitative data
- Resource and strategic issues are found out by interviews (Non-financial information)
  - Resources used by firms and their connections to strategic planning
  - Firm level strategies and their connections to networks
  - Network level resources and their connections to network strategies
- Financial success is assessed with financial analysis
  - Financial statements of each interviewed company
  - Analysis of growth, profitability, solvency, and liquidity
- Connections between qualitative and quantitative parts of research are analysed with statistical methods defined later