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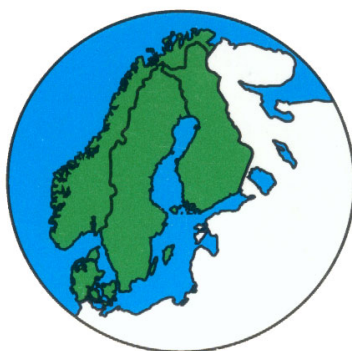
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Ragnar Jonsson's paper is included in this version, but is missing from the paper copy.

# **Developing the Business: Logging Contractors' Strategic Choices for Profitability and Work Environment**

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## **Abstract**

Logging contractor profits have been reported to decrease substantially in Swedish forestry in later years. During the same period there have been reports on a declining work environment in logging leading to difficult recruitment of personnel. Previous research has shown needs for both business and work environment development in the logging industry. This article continues our efforts at describing and analysing the strategic choices logging contractors make in order to develop or transform their companies to improve profitability and work environment.

We have interviewed logging contractors and other representatives of the logging industry regarding contractor incentives for investing in and developing new products and services as well as existing business activities. We have explored the same themes in seminars with contractors, employed machine operators, and buyers of logging services. The contractor strategies we identify are about creating and appropriating value by utilising the resources of the firm and market possibilities.

**Keywords:** ergonomics, investment, market possibilities, qualitative research, strategy

## **Introduction**

Outsourcing of logging operations by forest industry and subsequent contracting of logging services has increased drastically in Sweden since the 1970's. Presently, contracting accounts for at least three quarters of the mechanised logging (Synwoldt & Gellerstedt 2003). Contractors are usually very small enterprises; the median firm might have four or five employees. Contractors usually work for forest industry companies or forest owners associations. Profitability in the contracting business used to be good. Nowadays it is frequently claimed to be problematic (Lundberg 2000). Previous research on contractor business development has shown several obstacles to the development of logging contracting into a more profitable business. Logging contractors have a great dependency on their customers, hence the prerequisites for business development is also determined by the contractor's clients. Contractors as well as their customers frequently lack important aspects to their business competence, e.g. negotiation technique and leadership. The low profitability in the logging activity limits the resources available for new efforts and investments (Norin 2002).

Lidén (1995) gave a summary of the logging contractors' situation in Sweden. Having a contracting firm she described as a way of living. The incentive for becoming a contractor often was an aspiration for independence and seeking of a challenge. However, the contractors often regarded the economic situation as problematic, a view which was exacerbated by the one sided dependency on one or very few customers. Pontén (2000), as well, pointed to the

problematic economic situation in logging contracting. Norin (2002) explained the dependency of logging contractors upon their customers by an over establishment of contractors, alternatively a lack of alternative customers to the contractors. A well functioning co-operation between customers and contractors seemed to be of great importance for the contractor to be able to satisfy the needs of the customers. Norin also described how negotiations usually were formed on a yearly basis. One problem in the negotiation process was often the role definitions between the negotiators; neither customers nor the contractors themselves regarded the contractors as independent businessmen.

According to Stuart (2003), a contractor-customer interdependency was common in the logging sector around the world, stemming from the previous organisation of logging inside the forest industry organisations. Mäkinen (1997), studying successful logging contractors, applied Porter's model of competitive strategies being dependent on mainly external factors. Focusing on success factors for Finnish forest machine contractors he showed that the most successful contractors had one customer with whom they had had a very long-term relationship – up to twenty years – a sufficient capacity utilisation, and a not too large operating radius. Contractors with more customers or shorter relationships reached lower capacity utilisation and performed worse economically. Prudham (2002) showed that in Oregon, US, two distinct patterns of logging contracting had developed. One pattern consisted of relatively open bidding involving more of an arm length's relation between the negotiators. The other pattern involved repeated contracting between the same parts over a long period of years. Prudham discussed advantages and disadvantages of both contracting patterns and how both patterns may be in the interest of forest industries as well as contractors.

Ergonomic problems in forest machine work were observed more than twenty years ago (Bostrand 1984). Repetitive and monotonous tasks in the machines have resulted in illness among the machine operators, e.g. acute aches and pains in the neck and shoulder regions. A work organisation permitting greater variation in the tasks performed could increase the productivity as well as decrease the level of occupational diseases (Gellerstedt et al. 1999). Joint initiatives by the Swedish work and health authority and the logging industry focusing on solving the ergonomic problems were presented by Synwoldt & Gellerstedt (2003). However, the possibilities of organising work in a more varied way were seriously limited due to lack of meaningful and profitable complementary occupation and limited economic opportunity for initiatives. Low profitability and a poor work environment were also forwarded as major reasons behind reported difficulties in recruiting new machine operators (Persson et al. 2003). Proper et al. (2004) showed that there might be economy in ergonomic interventions.

The aim of this paper is to continue our exploration of the strategic choices logging contractors make in order to develop and transform their companies to meet the demands on profitability and work environment (cf. e.g. Hultåker & Bohlin 2004). Based on qualitative research we explore contractor strategies for development. We have studied contractor incentives for utilising and developing market possibilities, thus developing and investing in existing business activities as well as new products and services.

## **Theory**

### **Business development**

In economic theory development is closely connected to the concept of entrepreneurship. At least two traditions exist, using the concept in different ways. A unifying factor is the view

that development is a dynamic process requiring both entrepreneurship and innovation. In the Schumpeterian tradition (Schumpeter 1926) the concept of entrepreneurship is derived from the technology innovation function. The entrepreneur disturbs existing market equilibria by his innovative activity of introducing new ways of production and new products. Another tradition stems from Kirzner (1993/1973). Kirzner argues that the core issue of entrepreneurship is the discovery of hitherto unexploited opportunities, thus, in contrast to Schumpeter, taking care of market disequilibria. Gick (2002) summarises the perspectives of Schumpeter and Kirzner as being complementary. Kirzner focuses on individual action; Schumpeter focuses on the market process. Both the Kirznerian and the Schumpeterian entrepreneur calls for the firm in order to be able to explain how the entrepreneurial process is connected to the utilisation of resources.

Penrose (1968/1959) introduces the concept of enterprising, thus meaning the attitude to investigate possibilities for development. The enterprising attitude is a character of the growing firm, meaning to commit effort and resources to speculative activity in hope of gain. Being enterprising is a prerequisite for growing in the long run. Penrose presents three explanations why the firm may grow and why there may be limits to the growth of the firm – internal conditions (managerial ability), external conditions (product or factor markets), and combined internal-external (uncertainty and risk). While uncertainty refers to the confidence the entrepreneur has in estimates and expectations risk refers to the outcomes of action.

According to Moran & Ghoshal (1999), there is a mutual dependency between the firm and the market, where the firm is the dynamic element shaping the prerequisites for exchange. Through the exchange process firms and market together bring about adaptive efficiency, thus shaping the prerequisites for innovative activity and contributing to economic development. They state three necessary conditions for deployment of a firm's set of productive opportunities: First, someone must have or have access to all needed resources; second, someone must benefit from the execution of the deployment; and third, someone must see the act of deployment as a viable act anticipating a service.

## **Strategies**

The literature stresses different aspects of business strategies. This is illustrated by Mintzberg (1987a) presenting five different definitions of strategy. (i) As a plan strategies are made in advance and continuously being developed consciously and purposefully. This plan may be general or specific. It deals with how leaders establish direction for organisations. (ii) Strategy may as well be a ploy; i.e. be regarding a single intended activity. The plan or ploy may eventually be realised or not. (iii) Strategy may be described as a pattern, a pattern in a stream of action. This pattern of action emerges into a realised strategy. (iv) The notion of strategy may also be used for the positioning of resources in an environment. In this meaning strategy looks at organisations in their competitive context. (v) Finally, strategy may be used to describe a perspective in perceiving the world. The five definitions of strategy are interrelated and complement each other. Mintzberg (1987b, pp. 28-29) holds that all five notions of strategy are “needed to reduce uncertainty and provide consistency..., in order to aid cognition, to satisfy intrinsic needs for order, and to promote efficiency under conditions of stability...”. The aim of strategy is to allow people in an organisation to take some things for granted in dealing with reality. However, effective strategy must not render organisation blind to changes in the environment (Mintzberg 1987b). According to Mintzberg (1994), viable strategies have

both emergent and deliberate qualities.

Weick (1987) focuses on substitutes for strategy. The core issue of management, thus, is to encourage action. As Weick poses it, improvisation may have a greater importance in the management of firms than is usually accepted. Often strategy is a construction following the action that has taken place, giving meaning to the preceding action. The management, according to Weick, rests on presumptions and improvisation to a high degree. He thus introduces the notion “just in time strategy”. This is not saying that action is stochastic. Both presumptions and improvisation contain order.

Grant (1991) claims that one important aspect of strategy is the deployment of the existing capabilities of the firm; another is the development of the firm’s resource base. The competitive advantage of the firm is mostly dependent on the resources that are “...durable, difficult to identify and understand, imperfectly transferable, not easily replicated, and in which the firm possesses clear ownership and control.” (Grant 1991, p. 129) Others, as Porter (1980), stress the importance of external factors for gaining competitive advantages. Porter models five factors influencing the state of competition in an industry; competition within the industry, the negotiating strength of suppliers, the negotiating strength of customers, the threat from new establishers, and threat from substitutes. As Moran & Ghoshal (1999) pose it, firm-level strategy is about value appropriation and value creation and they ask how these two requirements might be balanced. They make a differentiation between strategies focusing on competitive advantage and shareholder wealth on one side and the creation of new rent sources on the other. Effective firm-level strategy has to deal with the internal resources of the firm as well as with the external environment. Storey (1997/1994) explicitly uses the notion of strategy about ways to achieve goals once in business.

### **Firm level goals**

The different aspects of strategy, whether deliberate or emergent, all have a connection to action and indicate that action is conscious and directed towards goals. According to Cyert & March (2003/1992), individuals have goals while collectives do not. In the firm, being a coalition of individuals, a goal has to be some shared objective. There is not any need for perfect consistency between different goals at different times or at different places. Penrose (1968/1959) views the firm as a set of more or less unique productive opportunities. She claims that the over all incentive behind growth of the firm is to use the available resources as fully as possible. Snehota (2002/1990) uses the notion of goals or driving forces as the guidance of behaviour. The business activity is the gain achieving entrepreneurial action of exploiting market opportunities through exchange processes. According to Moran & Ghoshal (1999), the goal of the firm seems to be the creation and appropriation of value.

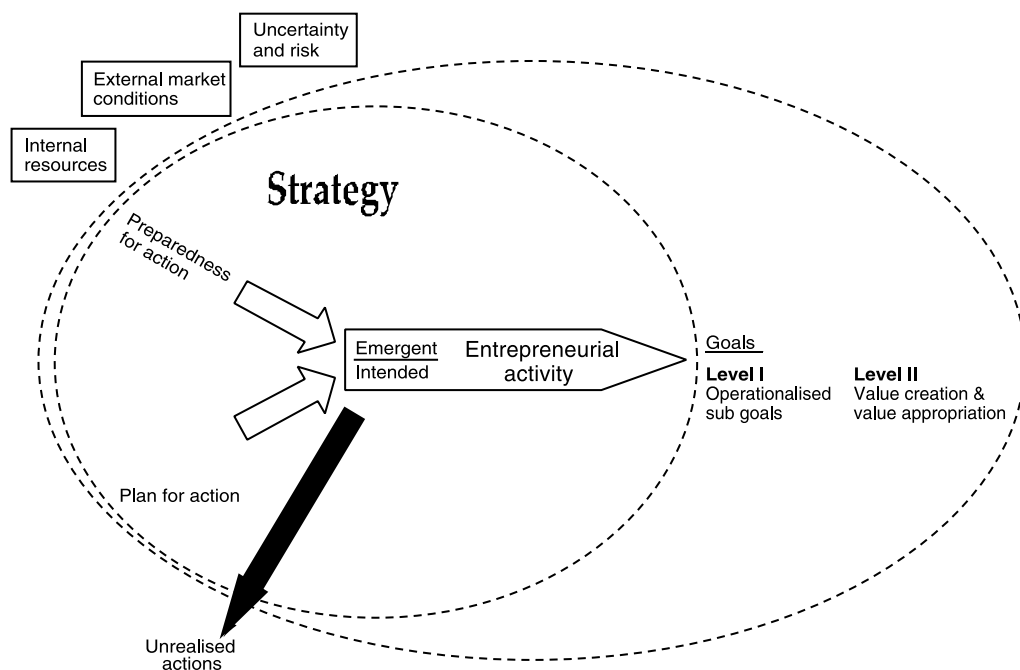
### **Firm, enterprise, and organisation**

The definitions and delimitations of business firms, enterprises, and organisations are not very clear. The use and meaning of the different notions differ between different authors. Cyert & March (2003/1992) start using the concept coalition for organised activity but later tends towards using organisation. Penrose (1968/1959) uses firm throughout. Snehota (2002/1990) explains the concept of organisation, stemming from sociology, as meaning a collective of actors related through joint activities of some members. The concept of firm stems from economics, being an entity with the primary task of transforming inputs into outputs thus creating value. Snehota prefers the concept of business enterprise, thus meaning a pattern of

activities with focus on generating market transactions. This is not always in coherence with other authors. However, our intention in this paper is to follow the notion from Snehota.

### Formation of an interpretative framework

Our interpretation of the literature is that business development is a dynamic process requiring entrepreneurship and innovation. Without an enterprising attitude the business will not develop in the long run. Strategies are the ways the people forming the coalition of an enterprise act and intend to act in order to achieve the best use of their collective productive opportunities with regard to value appropriation and creation. The acting is guided by objectives operationalised at different levels of detail (Figure 1).



**Figure 1.** Interpretative framework of the business development process.

Our notion of strategy is built on Mintzberg's (1987a; 1994) ideas on strategy having both deliberate and emergent qualities. Weick (1987) provides a perspective of retrospectivity and makes a clear distinction between strategic planning and management. The strategy concept is merged with notions of business development and entrepreneurship. From Penrose (1968/1959) we include three factors behind business development; internal resources, product or factor market conditions, and uncertainty and risk. According to Grant (1991), the competitive advantage is mostly dependent on the resources of the firm. Moran & Ghoshal (1999) give the development activity guidance by formulating the over all goal of value creation and value appropriation. Gick (2002) tells us that there is a need for a firm in order to connect the entrepreneurial activity to resource utilisation.

Essential for the understanding of strategies for business development and the goals of



the contractors are the three driving forces behind development of the enterprise: Internal resources and external market conditions as well as the experience of uncertainty and risk. The enterprising attitude becomes manifest in the entrepreneurial action, which is guided by a striving to appropriate and create value by deployment of existing capabilities as well as development of the resource base into beneficial services or products. The strategies may be formal plans of intended action, which may be realised in action or go unrealised. The strategies may as well be of a more emergent quality. However, the emergence of entrepreneurial activity requires some preparedness for action. The preparedness is one manifestation of an enterprising attitude.

## **Methods and material**

With the objective to investigate the potential for diversifying a logging contractor business, interviews were carried out building on traditional qualitative methods in social science, e.g. grounded theory (cf. Strauss & Corbin 2003/1998). The results have been discussed in seminars with participants from different sectors of the forest industry (cf. Gustavsen et al. 2001). Interviews and seminars have been conducted indiscriminately in order to successively form a theoretical framework (cf. Dubois & Gadde 2002).

## **Interviews**

A first set of sixteen interviews was carried out in 2002. Respondents known as successful logging contractors were chosen in order to investigate different contractor characteristics. Customers of logging services were also interviewed as were machine manufacturers and a machine operator (Hultåker et al. 2003). A second set of interviews, three new and eight complementary with previously encountered contractors, was carried out in the summer of 2003. This time, respondents were chosen in order to study different contractor experiences of diversification (Hultåker & Bohlin 2004). A third set of ten interviews was carried out in late autumn of 2003. The main purpose was to study work environment issues. In this set, new respondents were chosen aiming at giving a good representation of different company sizes and different parts of Sweden.

## **Seminars**

In November 2002, a seminar on the diversification of logging business was organised, where decision makers from all three forest sub-sectors participated – 1) logging contractors, 2) representatives of forest companies and industries and forest owners' associations, and 3) forest machine manufacturers (Hultåker et al. 2003). In the spring of 2003, interview results on diversifying businesses were discussed with networks of logging contractors within the forest machine contractors' association in Sweden – Skogsmaskinföretagarna (SMF). This gave the opportunity for contractors to expand upon our ideas for diversification and for us to find out what interest they have in broadening their activities (Hultåker & Bohlin 2004). In February 2004 two more seminars were conducted together with SMF aimed at discussing work organisation and work environment. This time the participants were logging contractors, representatives of forest companies and industries and forest owners' associations, and machine operators.



## Results

During the interviews we identified three different contractor intensities of development activity: (i) The contractors who were taking active initiatives trying to develop products and services for supply to the market, (ii) the contractors who were reacting on expressed customer demands but not taking initiatives of their own, or (iii) all passive contractors making no efforts to develop new products or services. The contractors' development efforts were in many cases triggered by external factors out of control of the contractor. However, there also seemed to be a need for preparedness for development prompting action when opportunities appeared. Many of the contractors we studied had experienced a steady cooperation with the same customers for many years. The other contractors often were newly started enterprises.

The contractors interviewed performed different activities besides logging offered to the existing customers or to new ones. The entrepreneurial efforts of the contractors had emanated from, on the one hand, different local opportunities and, on the other, from contractor competence and interests. We identified different contractor driving forces as well as constraints for development of the logging contracting enterprises. Driving forces for investing in and developing specific new products and services frequently differed from contractor to contractor according to local opportunities. The product or service offered by one contractor may seem a sheer loss to another. The contractor competence differed or the customer need or demand differed. The contractors proposed several driving forces for developing new products or services:

- Utilise personnel or machine resources or the company's competence more effectively, thus increasing the productivity.
- Give opportunities for more varied tasks, thus increasing the productivity or creating a better work environment.
- Satisfy curiosity or other special interests of the contractor.
- Meet explicitly expressed demands or requirements from customers, thus being able to continue working for the customer, or ambition to supply customers with more valuable products and services, thus strengthening the contractor's market position.
- Reduce or spread risks, e.g. reduce dependency on single customers or single products or services.
- Make co-ordination profits or get parts of profits in other parts of the forestry sector.
- Provide employment for people asking for work in the company.
- Utilise changes in the market structure, e.g. liquidation of neighbouring companies.

The main constraints for developing new products or services were lack of competence or resources, poor profitability, difficulties to effectively combine new and existing tasks, lack of interest, and the structure and attitudes within the market.

Concerning re-investing in the provision of existing logging services the main driving forces named were operating reliability, reducing maintenance work, increasing the productivity, or improving the work environment. Investment in new equipment was often guided by the needs in the production chain of a customer. Several contractors said that having a good work environment is a way to compete for the personnel in a situation with lack of skilled operators. The main constraints for re-investing in existing logging equipment were lack of long-term contracts as well as low profitability.

## Discussion

The contractors seldom express their development efforts with the notion of strategies. The contractors rely on confidence and improvisation, not on clearly formulated strategies. This calls for an emergent view on strategy as patterns of action. The contractors may say that they have goals, which seems to be strongly connected to the opportunities at hand. If the notion of strategy is to be used, the strategy formulation has to be done by us – the researchers – while analysing the contractors' statements.

The contractors develop their businesses due to conditions within their enterprises, e.g. competence and resources, or due to external market conditions, e.g. demand from customers. The contractors' tacit goal is to create the best possibilities for their businesses with regard to the resources available, thus creating and appropriating value and shaping the prerequisites for market exchange. Some of the strategies emanate from within the firms – e.g. better resource utilisation, need for more diversified tasks for the employees in order to reduce monotonous work, or the contractors' ambition to supply customers with more valuable products and services. Other strategies emanate from outside the firm – e.g. customers claiming more of existing as well as new services from the contractors. There is also an element of curiosity in the development effort, a curiosity that, within limitations, is allowed to conflict with the full resource utilisation. The additional products and services developed may all give separate incomes and better opportunities for more varied tasks. However, new tasks often seem to be performed by the contractor himself or by new personnel not operating the machines, which reduces the possibilities of a more varied work, at least initially.

The different development efforts identified are aimed at creating new value or aimed at appropriating value. The different driving forces and constraints identified and the different levels of development activity are explanations behind development efforts. The results of different contractors and in different environments show the dynamics of the enterprises and the dependency of the enterprises upon their environment. There are contractors able to shape their own possibilities for exchange.

The notion of strategy for business development introduced in this paper relies on an enterprising attitude aiming at improved value creation and appropriation. The logging contractors might be passive and not develop their businesses, e.g. only answering on demands expressed by existing customers or being all passive. However, our results show that there are contractors developing their businesses by an enterprising attitude actively trying alternative ways to use their resources as fully as possible. We would label this enterprising attitude entrepreneurship.

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