Growth Strategies in Declining Industries
Acknowledgements

We would like to take the opportunity to thank some of the people that provided us with ongoing support and expertise, which made it possible to fulfill the purpose of this study.

First, we would like to thank our tutor Gershon Kumeto for his outstanding support and knowledge from the field, which provided us with valuable insights during the whole writing process.

Second, we pay gratitude to Juha Lilja who provided us with contacts in the Finnish printing industry. His help enabled us to gather empirical data for our research.

Finally, we want to thank the respondents of our interviews. Without them it would not have been possible to perform this study.

__________________________  ____________________________  ____________________________
Miikka Lilja                  Christoffer Sundberg            Gustaf Sundberg
Abstract

The phenomenon of declining industries has been sparsely researched and few scholars have investigated whether firms pursue growth in industries that are in decline. This study aims to find out if and how firms pursue growth when they perceive the industries in which they operate as experiencing a decline. The study also aims to examine the key factors that influence firm strategy in declining industries.

We interviewed managers in firms operating in two declining industries, the Swedish retail fuel industry and the Finnish printing industry.

Our finding is that the studied firms operating in these two industries are aware of the declining state of their industries. However, all of them believe that their respective industries will transform instead of perish. Consequently, these firms pursue growth through various strategies to better position themselves within the changing conditions and declining state of their respective industries. Both internal and external factors influence firm strategy, and the factors were both industry and firm-specific. The firms studied tended to employ strategies based on their perception of their industries. In addition, the strategies were developed to both suit the current and the future industry environment. We label these strategies transformational strategies. We build on this new strategic option and construct a guiding framework that aims to facilitate firms’ strategic decision-making in declining industries.
Table of Contents

1. Introduction ............................................................................................................................................... 1
   1.1. Background ........................................................................................................................................ 1
   1.2. Problem discussion ............................................................................................................................. 2
   1.3 Purpose ............................................................................................................................................... 3
   1.4 Research questions ............................................................................................................................. 3
   1.5 Intended contributions ......................................................................................................................... 3

2. Frame of Reference .................................................................................................................................... 5
   2.1. Industry Evolution and Decline ........................................................................................................... 5
   2.2 Characteristics and Causes of a Declining Industry .............................................................................. 7
   2.3 Business Strategies .............................................................................................................................. 8
      2.3.1 Generic Strategies ......................................................................................................................... 9
      2.3.2 Growth Strategies ........................................................................................................................ 10
   2.4 Strategies in Declining Industries ....................................................................................................... 12
      2.4.1 End-Game Strategies in Declining Industries ............................................................................... 13
   2.5 Factors influencing strategy ................................................................................................................ 14
      2.5.1 External factors that influence strategy ....................................................................................... 14
      2.5.2 Internal factors that influence strategy ....................................................................................... 15
      2.5.3 The influence of firm size on strategy ....................................................................................... 16

3. Methodology ............................................................................................................................................. 18
   3.1 Method and Research Design .............................................................................................................. 19
      3.2.1 Case Studies ................................................................................................................................... 19
      3.2.2 Data Collection and Data Analysis ............................................................................................... 19
      3.2.3 Case Selection .............................................................................................................................. 20
      3.2.4 The Swedish Retail Fuel Industry ............................................................................................... 21
      3.2.5 The Finnish Printing Industry ..................................................................................................... 21
      3.2.6 Ensuring the Quality and Credibility of the Study ..................................................................... 22

4. Empirical findings ..................................................................................................................................... 24
   4.1 The Swedish Retail Fuel Industry ...................................................................................................... 24
   4.2 The Finnish Printing Industry ............................................................................................................. 27

5. Analysis .................................................................................................................................................... 37
   5.1 The Respondents’ Perceptions of the Industry Decline ..................................................................... 37
Tables
Table 1 – Literature Review
Table 2 – Interview Overview
Table 3 – Result Summary

Figures
Figure 1 – Strategic framework for declining industries
1. Introduction

In the introduction, we will present the background, problem discussion, purpose, research questions and intended contributions of our study.

1.1. Background

There has been a substantial amount of research in the field of strategic management focusing on industry evolution (Jovanovic & MacDonald, 1994; Klepper, 1996, 1997; McGahan, 2000, 2004). Prominent academics such as Klepper (1996, 1997), McGahan (2004), and Miles, Snow and Sharfman (1993) and have developed a good understanding of how industries evolve and how companies can deal with the related issues that arise over time. One influential theory within this field is the industry life cycle, which consists of four stages; the exploratory stage, growth stage, maturity stage, and the declining stage (Klepper, 1997; McGahan, 2000). In terms of the industry life cycle, there has been a surprisingly small amount of research on the declining stage. However, some research has focused on the strategies that companies can employ in order to survive or exit a declining industry. For example, Harrigan and Porter (1983) and Porter (1980) have outlined strategic directions for coping with industry decline by focusing on leadership, niche, harvesting or divesting strategies. Existing research has however largely neglected the fact that a declining industry is not necessarily doomed to perish. Instead, an industry may also be cyclical in nature (Martin & Eisenhardt, 2004; Murmann and Frenken, 2006). For example, an industry may experience a change in demand when a superior technology is introduced (Porter, 1980), as was the case of the mobile phone industry and its transition from regular mobile phones to smartphones. Accordingly, there is a need for the firm to adapt its strategies to specific stages of the industry life cycle (Porter, 1980).

While existing research on declining industries has had a strong focus on exit-strategies, much research, has neglected the possibility of other strategic options, such as growth, which may be important due to an industry’s potential cyclicality (Martin & Eisenhardt, 2004; Murmann & Frenken, 2006). Already in 1983, Harrigan and Porter argued that rapid technological changes and shifts in needs cause many industries to decline. Considering how fast technology is developing today and how this makes consumer preferences change rapidly, the connection between declining industries and growth strategies is an important point that will benefit from further exploration.

Harrigan and Porter (1983) also note that the declining phase of an industry may offer profitable opportunities. For instance, they state that some declining industries age slowly and can yield a high level of profitability for many years. They also found that some firms in declining industries have successfully turned to strategies that they only would have adopted if the industry demand was growing. However, this finding has been largely unexplored and the small amount of research that has studied this further has focused mainly on small and medium sized enterprises (Bamiatzi & Kirchmaier, 2014; Covin &
Slevin, 1989). Martin and Eisenhardt (2004) recognized that entrepreneurial activities within a firm can yield other strategic options than an exit of a declining industry. Nonetheless, Bamiatzi and Kirchmaier (2014) showed that firms can employ distinctive strategies to overcome a decline and that a decline does not prevent firms to pursue growth. These results further highlight the importance of studying growth in declining industries and which strategies incumbent firms adopt.

1.2. Problem discussion

Several suggestions have been outlined in academia on which strategies firms should adopt when operating in declining industries, ranging from further investment in the industry to the firm making a complete withdrawal. For example, a study by Harrigan (1980b) mentions that an increase in investment has been a successful strategy in some declining industries, such as the industry for baby foods and acetylene production. However, she also notes that an early exit from a declining industry in order to reallocate capital to more profitable industries might lead to better performance. It could also be the case that different strategies are combined (Hall, 1980; Hill, 1988; Parker & Helms, 1992; Porter, 1980), as in the case of PPG Industries, which first harvested its investment and later withdrew from the market (Harrigan, 1980a). However, these strategies simply advocate survival or short-term profits, rather than exploring if there are opportunities for growth. Hence, a gap in existing research on strategies in declining industries is that it has been too narrow in its scope, as studies on growth in such environments is very sparse (Gundry & Welsh, 2001) and would benefit from further exploration.

Contrary to the focus of previous literature on strategies in declining industries, Bamiatzi and Kirchmaier (2014) concluded that individual firm-specific strategies can be employed in order to succeed in declining industries. However, their study focused solely on growing small and medium enterprises and the generic strategies that these firms have employed, rather than exploring which growth strategies that they have pursued in order to achieve growth. Additionally, Martin and Eisenhardt (2004) found that firms in declining industries could increase the likelihood of seeing new opportunities by pursuing entrepreneurial activities. While Bamiatzi and Kirchmaier (2014) sought to identify which strategies that are superior in declining industries, Harrigan (1980a) and Porter (1980) argue that there is no single road to success when it comes to choosing a specific strategy. Therefore, rather than exploring whether some strategies are superior over others, we aim to explore if firms actively pursue growth despite facing a declining demand. If they do pursue growth, we seek to explore which growth strategies that firms adopt in such environments. Hence, our first research question is: If firms pursue growth in declining industries, how do they do it? If they do not pursue growth, what strategies do they adopt instead?

Existing literature suggests that firm performance is affected by many different factors, and there is a debate in the strategic management literature on whether it is the firm-specific capabilities or industry characteristics that are main drivers of firm performance (Karniouchina et al., 2013; McGahan & Porter, 1997; O’Regan, Kluth & Parnell; 2011).
Some academics suggest that firm performance is determined by the industry structure (McGahan & Porter, 1997). For example, Karnouchina et al. (2013) state that industry effects will have a stronger impact on a firm’s performance in later stages of the industry life cycle, such as the declining stage. In relation to this, several authors have stressed the importance of strategy being adapted to industry characteristics (Barbero, Casillas & Feldman, 2012; Parker & Helms, 1992; Porter, 1979, 1980). Barbero et al. (2012) for example, argue that a growth strategy must take advantage of both the firm’s capabilities and the external environment in which it operates.

Critics of the theory that industry characteristics are the main drivers of firm performance argue that it is determined by the unique resources a firm possesses, known as the resource-based view of the firm (Barney, 1991), and the firm’s ability to combine these resources into firm-specific capabilities, known as dynamic capability theory (Teece, Pisano & Shuen, 1997). No consensus has been reached in academia on which of these theories that best explains firm performance and strategy. However, it seems to be clear that it is important to consider both alternatives when opting for a strategy. According to Harrigan and Porter (1983), both industry and company characteristics, such as barriers to exit or ownership structure, might affect the strategies that firms adopt in declining industries. In order to get a further understanding of the factors that influence strategy adoption in declining industries, we wish to receive input from practitioners currently operating in declining industries. This leads us to our second research question: *What key factors determine the strategies that firms adopt in declining industries?*

### 1.3 Purpose

The purpose of this study is to explore if firms actively pursue growth in declining industries and which strategies they adopt. In addition, the study seeks to identify the main factors influencing strategy in declining industries.

### 1.4 Research questions

The research questions below will be answered in order to fulfill the purpose of this paper.

Research Question 1: *If firms pursue growth in declining industries, how do they do it? If they do not pursue growth, what strategies do they adopt instead?*

Research Question 2: *What key factors determine the strategies that firms adopt in declining industries?*

### 1.5 Intended contributions

We aim to advance literature on strategies in declining industries by investigating whether firms in these industries actively pursue growth, and if they do so, examine which growth
strategies they pursue. In addition, we seek to facilitate strategic decision-making for firms operating in declining industries by highlighting other strategic options than end-game strategies.
2. Frame of Reference

In the frame of reference, we will review the relevant literature with which the study is framed and outline the theoretical perspectives we adopt in our study.

The frame of reference will be structured as following: First is a review of industry evolution and decline, and an overview of how declining industries have been defined in current literature, with various explanations to why industries enter into decline. We proceed with a presentation of relevant theory on growth strategies and strategies for declining industries. This part will be followed up with a section on key factors influencing strategy in declining industries. This structure aims to provide a logical funnel approach to the theory and literature we have utilized. The frame of reference is subsequently used to craft our interview questions and provide a basis for our empirical research.

In table 1 below, an overview of our literature review can be seen. It demonstrates the databases, main theoretical fields, search words, literature types as well as the criteria which we used to include an article in our frame of reference.

<table>
<thead>
<tr>
<th>Literature Review</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Databases</strong></td>
</tr>
<tr>
<td><strong>Main Theoretical Fields</strong></td>
</tr>
<tr>
<td><strong>Literature Types</strong></td>
</tr>
<tr>
<td><strong>Criteria To Include An Article</strong></td>
</tr>
</tbody>
</table>

Table 1 – Literature Review

2.1. Industry Evolution and Decline

There has been a substantial amount of research in the field of strategic management focusing on industry evolution (Jovanovic & MacDonald, 1994; Klepper, 1996, 1997; McGahan, 2000, 2004). One prominent theory within this field is the industry life cycle, which is an extension of the product life cycle, popularized by authors like Dean (1976), Klepper (1996) and Vernon (1966). Industry life cycle theory seeks to explain the different stages that an industry goes through as it ages and has been an influential part
of the literature within the field of strategic management. It is still today widely used by academics, consulting firms and business schools (Peltoniemi, 2011). The industry life cycle and product life cycle are closely related. The industry life cycle studies how the industry as a whole evolves, while the product life cycle is narrower in its focus and only addresses the life cycle of individual products.

Klepper (1997) found that the way many industries evolve is captured by the product life cycle. Hence, the stages of an industry’s life cycle can in general be described by the stages in the product life cycle, which includes the exploratory stage, growth stage, maturity stage (Klepper, 1997) and the declining stage (McGahan, 2000). In the exploratory stage, production volume is low and the industry is characterized by product innovation (Klepper, 1997). As the product evolves and the output level takes off, the industry moves into the growth stage. Here, a specific product design starts to emerge and firm entry is high. Competition increases rapidly and the industry eventually experiences a shakeout in the number of competing firms (Agarwal, Sarkar and Echambadi, 2002). As competition stabilizes and sales growth levels off, the most efficient producers establish their market shares and the industry reaches the maturity stage, where the focus on product innovation is switched out in favor of process research and technology (Agarwal et al., 2002). Finally, Porter and Harrigan (1983) describe the declining stage as characterized by unutilized capacity, where the strategies that incumbent firms employ to cope with the decline are highly varied.

Despite the fact that there is no one way in which all industries evolve (Porter 1980), the industry life cycle helps to understand how strategies can be adapted to a specific stage in an industry and at a specific time, which supports a further studies on strategies in declining industries. A brief introduction to the four stages of the industry life cycle follows.

The first stage in the industry life cycle model is the exploratory stage. At this stage, production volume is low and the industry is characterized by product innovation and uncertainty about the future (Klepper, 1997). As the product evolves and the output level takes off, the industry progress into the second stage – the growth stage. Here, the level of product innovation starts to decrease and firms start to adopt a specific product design. Firm entry is high, competition increases rapidly and the industry eventually experiences a shakeout in the number of firms (Agarwal et al., 2002). In the maturity stage, competition stabilizes and sales growth levels off, the most efficient producers establish their market shares (Peltoniemi, 2011). At this stage the focus of companies in the industry shifts from product innovation to process R&D (Agarwal et al., 2002). Finally, Porter and Harrigan (1983) describe the declining stage as characterized by unutilized capacity, where the strategies that incumbent firms employ to cope with the decline are highly varied.

Most of the literature on strategies in the declining stage has focused on exit or survival strategies (Argyres & Bigelow, 2007; Filatotchev & Toms, 2003; Klepper, 1996). Peltoniemi (2011) suggests that firm exit is a central variable in the industry life cycle. However, while early studies assumed only one life cycle, later research suggests that an
industry’s life cycle may be cyclical in nature (Murmann & Frenken, 2006). Industry cyclicality may be the result of different market disruptions such as deregulations and technological advances, which lead to a restart of the industry’s life cycle, a process which labels the industry as dynamic (Martin & Eisenhardt, 2004). Hence, an industry decline does not have to be permanent. This indicates that strategies in declining industries need to be further explored and potentially complemented, especially in terms of growth strategies.

2.2 Characteristics and Causes of a Declining Industry

The Characteristics of a Declining Industry

It appears that there is no absolute definition of what constitutes a declining industry in the existing literature. Previous literature has tended to use various names for declining industries, including “bear markets” (Schreuder, Cayseele, Jaspers & De Graaff, 1991) and “stalemate industries” (Calori & Ardisson, 1988). Calori & Ardisson (1988) describe “stalemate industries” as industries where technological knowledge is widely spread and where competitive advantages are few and firms rely on price competition. They refer to declines in the paper, sugar and steel industries as examples of this type of industry decline.

Porter (1980) defines a declining industry as an industry in a decline that is not ascribed to the business cycle or short-term discontinuities, like material shortages or employee strikes. Rather, Porter talks about a “true situation” in which end-game strategies must be developed by the incumbent firms in order to survive. This notion is supported by Harrigan and Porter (1983) who suggest that remedies must have been exhausted in declining industries, and that the issue is to cope with the decline itself.

Schreuder et al. (1990) employ a specific definition of decline; that industries with a twenty percent drop in the industry value added over a period of at least three years and with a continuous decline count as declining industries. Miles et al. (1993) used an accounting-based definition based on a four year-average return on investment of the incumbent firms. Ghemawat and Nalebuff (1990) on the other hand, simply define declining industry as a “decline in demand”. A further definition is outlined by Robinson (1986, p74), who state that operating firms tend to have “lower marketing efforts, less product innovation and lower R&D expenditure” in declining industries.

Different terminology aside, scholars seem to agree that a declining industry is one that has a shrinking amount of competitors, dwindling unit sales and less competition based on differentiation. Porter (1980) rules out any short term influences such as a recession or temporary shortage of labor. Finally, there seems to be a consensus among scholars that an industry should maintain a negative outlook over a longer period in order to be classified as a declining industry.
Several reasons for why industries go into decline have been outlined in existing literature. Porter (1980) divided the factors that spur industry decline into three categories, namely technological substitution, demographics and shifts in needs. Technological substitution concerns the fact that a rapid technological innovation renders some products old which in turn affect sales. Demographic changes occur when there are changes in the target customer groups, for example shrinkage of end-buyers. Further, Porter labels shift in needs as changes in the buyers’ needs or tastes. This could be due to sociological factors, such as new knowledge to the public, for instance, about the long-term impact of smoking. Harrigan and Porter (1986) add two more factors – the cost of inputs and complementary products – which also might impact demand in an industry, and therefore can cause industry decline. Hall (1980) further mentions slower growth, more regulation, higher inflation and intensified competition among the firms as possible reasons to why an industry enters into decline.

Similar to how scholars have different views on declining industries; practitioners may also perceive an industry differently. For example, there could be differences in firms’ ability to foresee future industry demand in that some firms might forecast high probability of industry revitalization where others might not (Porter, 1980, Schreuder et al. 1990).

Our Definition of a Declining Industry

When selecting which industries to study, we have defined a declining industry as one which is experiencing a decline in demand (Ghemawat and Nalebuff, 1990), which we define as a decline in an industry’s overall sales over a period of at least three years.

Next, we will proceed to the theory part of the frame of reference, where relevant theory on strategies in declining industries will be outlined.

2.3 Business Strategies

Here, we will outline two different approaches to firm strategies, Porter’s (1980) generic strategies and the main growth strategies.

Defining Strategy

In this study, we have defined strategy in accordance with Mintzberg (2007, p.3) that it is a “pattern in a stream of decisions”. With this definition, strategy is not viewed as a pre-made plan that the organization pursues, it can rather be the result of a set of actions that an organization performs. In addition, our view is that strategies are not always planned or deliberate. As Mintzberg (2007) argues, they can also emerge from current strategy and take and organization in an unexpected direction.
2.3.1 Generic Strategies

Michael Porter’s three generic business strategies has been prominent within strategic management (Akan, Allen, Helms & Spralls, 2006; Hill, 1988; Parker & Helms, 1992; Pretorius, 2008) and has gained empirical support in literature (Dess & Davis, 1984; Kim, Nam & Stimpert, 2004; White, 1986). The three generic strategies are labeled as overall cost-leadership, differentiation and focus (Porter 1980). Below, we will outline each generic strategy as they have provided a foundation for several of the strategies that businesses tend to adopt in declining industries.

Overall Cost Leadership

This strategy aims to establish the firm as a cost leader. This is done through aggressive construction of efficient facilities, tight cost control and cost cutting and avoidance of marginal customer accounts (Porter, 1980). The cost leadership strategy cannot focus entirely on low costs in order to be successful though. As Porter (1980) notes, while maintaining low costs is the main objective, the firm cannot neglect other areas such as quality and service if it wants to succeed.

In order for the firm to achieve a low cost position, it will need a high relative market share or other more specific advantages, such as a unique access to resources (Porter, 1980). Reaching cost leadership could also be coupled with further investment in the industry. Indeed, the firm might have to redesign products, pursue aggressive pricing, invest in expensive equipment and encounter start-up losses (Porter, 1980). When achieved, the cost leadership strategy could provide the firm with a competitive advantage. For example, a low cost position can both yield above average returns and prevent new firms from entering the industry (Porter, 1980).

Differentiation

The differentiation strategy is pursued when a product or service is being remade into something that is perceived as unique within the industry (Porter, 1980). This could be done by creating a product of exceptional quality or establishing a service that previously did not exist. Through differentiation, the firm can reap higher margins, but may find it difficult to gain a high market share (Porter, 1980). Porter (1980) argues that there seems to be a tradeoff between differentiation and cost leadership, as the former is focused on high margins while latter focus on high market share. Despite this, Porter concludes that the firm cannot disregard its costs while pursuing a differentiation strategy (Porter, 1980). Hill (1988) argues that Porter’s model is flawed in that it could be possible for a firm to achieve a low cost position through differentiation. Also, some contexts require the firm to pursue both strategies as there is no low-cost position within the industry (Hill, 1988).

Focus

With the focus strategy, the firm is focusing on a specific buyer group, geographic market or segment of the product line (Porter, 1980). The idea is that the firm will
channel its focus on serving and meeting the needs of a specific segment and doing this more efficiently than competitors. Through this, the firm can achieve differentiation, lower costs, or both (Porter, 1980). Hence, the focus strategy can be thought of as having three conceptions: differentiation focus, cost focus and the two strategies combined.

2.3.2 Growth Strategies

Defining Growth

Several different indicators for growth have been outlined in previous literature to define growth (McKelvie and Wiklund, 2010). We find sales growth as a relevant indicator in our study since it is an efficient growth variable that is easily translated across countries, and is often preferred to be used by entrepreneurs (Delmar, Davidsson & Gartner, 2003, Hoy, McDougal & Dsouza, 1992). In this study we have defined growth as a three-year annual average growth in a company’s sales.

Growth Strategies in Declining Industries

The sparse literature on growth in declining industries tends to focus mainly on small firms (Covin & Slevin, 1989; Bamiatzi and Kirchmaier, 2014). However, Bamiatzi and Kirchmaier’s (2014) study have important implications for our study as their finding, that adverse industry conditions do not hinder firms to pursue growth and that firms can employ distinctive strategies in order to overcome an industry decline, support further studies on firm growth in declining industries. Bamiatzi and Kirchmaier (2014) further state that no consensus exists on what explains firm growth in current literature. However, they argue that human capital, the size and age of the firm, as well as geography appear to be the most prevalent factors that, in addition to the chosen strategy, determine growth.

Barbero et al. (2012) argue that a growth strategy must take advantage of a firm’s resources, capabilities and the external environment in order to establish a competitive advantage. There are three classic, specific growth strategies that firms can pursue, namely organic growth, mergers and acquisitions, and strategic alliances (Faulconbridge, Hall & Beaverstock 2008). In addition to these, McKelvie and Wiklund (2010) have identified hybrid modes of growth as an influential expansion to the literature of growth that should not be disclosed. We will briefly outline each strategy below.

Organic Growth

According to Mognetti (2002), organic growth strategy imply that a company achieves growth by developing its capabilities and resources internally, for example when a company’s R&D department develops new technologies or products that provide the company with new growth opportunities. There are both benefits and drawbacks of pursuing organic growth. Factors such as strategic independence and internal knowledge
development are perceived as the main advantages of organic growth, whereas slow progress, high risk and high cost are possible disadvantages (Mognetti, 2002).

**Mergers and Acquisitions**

Merger and acquisition (M&A) growth strategies imply that a company seeks growth by acquiring or merging with a company that operates in the same or a different industry (Anand & Singh 1997). M&A activities offer opportunities to quickly acquire new capabilities, enter new markets and gain a financial advantage. The acquisition strategies can be split in two: asset redeployment and asset consolidation. The former strategy is about redeploying excess resources by acquiring firms in industries with positive growth prospects, while the latter strategy advocates increasing market share in the declining industry through horizontal acquisitions (Anand & Singh 1997, Anand 2004).

Asset consolidation, also known as horizontal acquisitions, reduce the number of players in the industry and create opportunities for high profitability and growth despite the fact that an industry is in decline (Scherer & Ross, 1990). Anand (2004), and Anand and Singh (1997) support this notion and claim that consolidation strategies offer superior performance to deployment oriented acquisitions, i.e. acquisition of firms in unrelated industries, in declining industries. Further, Anand and Singh (1997) found that asset consolidation strategies perform better in declining industries than in growing markets due to the fact that consolidation within declining industries might offer the opportunity to rationalize capacity and resources. As an alternative strategy, Castaldo and Bravo (2014) state that rather than acquiring other players in a declining industry using a consolidation strategy, a firm can achieve economies of scale in a declining industry through a merger. Further, the study notes that a merger strategy offers a firm an alternative solution to redeploy their excess resources and improve a firm’s profitability in a declining industry. Similar to the consolidation strategy, a merger gives the merging companies an opportunity to reduce the amount of competitors as well as gain a higher market share in a declining industry (Castaldo & Bravo 2014).

**Strategic Alliances**

Whereas M&A strategies imply that companies are united through change in ownership, a strategic alliance implies that a company pursues growth by sharing resources and capabilities with other companies without changes in its ownership (Bernard & Dussauge 2000). Strategic alliances can take many different forms, from simple unilateral contracts such as licensing, to more complex contractually based arrangements such as technology sharing, as well as pure equity joint ventures, where ownership in a separately incorporated entity is shared by the partner firms (Mowery, Oxley & Silverman, 1996).

**Hybrid Modes of Growth**

According to McKelvie and Wiklund (2010), hybrid mode of growth is not organic growth or acquisitive growth, but rather a combination of elements from both. Further,
“hybrid modes consist of contractual relationships that bind external actors to the firm at the same time as the firm maintains a certain amount of ownership and control over how any assets are used” (McKelvie & Wiklund 2010, p. 274). Therefore hybrid modes of growth can take several forms such as franchising, licensing, strategic alliances and joint ventures (McKelvie & Wiklund, 2010).

2.4 Strategies in Declining Industries

According to Porter (1980), there is a need for the firm to adapt strategies to specific stages of the industry life cycle. Existing literature on the declining stage of the industry life cycle mainly focus on firm exit and survival (Klepper, 1996; Filatotchev & Toms, 2003; Argyres & Bigelow, 2007). On the topic of strategies in declining industries, Porter (1980) and Harrigan (1980a) discuss that industries can decline in many ways, and therefore is no single strategy to ensure success in such an environment.

The choice of an appropriate strategy has been shown to be important for success in declining environments (Porter, 1980; Robinson, 1986). The strategy needs to be adapted to industry characteristics (Barbero et al., 2012; Parker & Helms, 1992; Porter, 1979), and the timing of the strategy implementation has also been proven to be important for success. For example, Harrigan and Porter (1983) and Harrigan (1980b) state that firms gain from making an early commitment to a strategy. Harrigan (1980a) further states that firm capabilities have an impact on the firm’s relative performance in a declining industry. This is further supported by Porter (1980), who states that the firm should evaluate competitors’ strengths, industry structure, potential barriers to exit, and the firm’s own strengths in relation to competitors. Moreover, Harrigan (1980b) mentions that the relative attractiveness of the industry might affect the firm’s choice of strategy. Hence, it is apparent that many factors need to be considered when formulating a strategy in declining industries.

Harrigan (1980b) related strategy to the environmental conditions within an industry and argued that increased investment in a declining industry could be a viable option to exit and divestment. In her framework, a firm has the possibility to employ a strategy on a “strategic continuum” which ranges from increasing investments to loss reducing strategies and exit. The framework gives the firm the possibility to interpret the environment and act in accordance with how they perceive demand, competition and the industry. Harrigan (1980b, p.604) notes that a firm should “include consideration of the industry’s structure and demand characteristics, as well as an analysis of their own and competitors’ strengths and weaknesses” when crafting a strategy. Her contribution to existing literature is unique in the way that it enables firms to craft their strategies based on how they perceive the industry.

Martin and Eisenhardt (2004) studied a Fortune 500 company and found that corporate entrepreneurship can be an alternative approach to exit strategies. They define corporate entrepreneurship as a corporation’s response to market or industry decline, where the corporation exits an industry and relocate its business into new opportunities. Further,
Martin and Eisenhardt (2004) argue that this process provide a means for managers of corporations to transform and grow their business units.

2.4.1 End-Game Strategies in Declining Industries

In Michael Porter’s seminal work “Competitive strategy” from 1980, Porter came up with a framework which he refers to as “End-game strategies” in declining industries (Porter, 1980, 1983). The framework is built upon four strategies that can be employed in order to cope with a declining industry. They range from advocating further investment in the industry to a complete exit. The firm could either take a leadership role by aiming to be one of the last operating firms in the industry, niche itself into a specific segment within the industry, harvest investments by focusing on cash flow, or making a quick divestment and exit the industry (Porter, 1980). Due to its importance in literature on declining industries, we will briefly outline the framework below.

Leadership

With this strategy, the firm aims to achieve a leadership position by trying to reach “above-average” profitability and hence become one of the last firms that will remain within the industry (Porter, 1980). When this position is reached, the firm can opt for another strategy such as harvesting (described more closely below). In order to achieve this position in the industry, various courses of actions can be taken. The firm could try to achieve increased market share through aggressive competitive pricing and marketing, while another option is to acquire other firms’ product lines or capacity in order to weaken competitors operations. Finally, there are strategies that aim to lower the barriers of exit to competitors in order to encourage them to withdraw from the industry. A firm aiming for a leadership position can hence demonstrate its commitment through public statements; reveal information that hints about future decline and advocate industry reinvestments in product-innovation (Porter, 1980). The action of investing in a declining industry is however risky, as capital can be frozen and difficult to retrieve through liquidation or profits (Harrigan & Porter, 1983).

Niche

The niche strategy is similar to the focus strategy. When following this course, the firm identifies a specific segment within the declining industry that it regards as profitable, slowly decaying and with a stable demand (Porter, 1980). Like the focus strategy, the firm focuses on remaining in the industry and becoming dominant in the chosen segment. Usually, this is done through the abandonment of other segments (Harrigan & Porter, 1983). The firm can combine the niche strategy with some actions from the leadership strategy in order to lower exit barriers for competitors and urge their withdrawal (Porter, 1980; Porter & Harrigan, 1983). Harrigan (1980a) found that the most favorable declining industries were those where firms could successfully serve specific niches despite the decline.
Harvesting

Following a harvesting strategy, the firm is focusing on optimizing business cash flow. This can be done through discontinuing new investments, reducing facility maintenance and cutting down on research and advertising (Porter, 1980). This is done to be able to raise prices and enjoy increased profits. Specific actions to be pursued include reducing the number of models, eliminating marginal customers and eroding firm service (Porter, 1980). Eventually, the business is liquidated. However, in order to succeed it is necessary that the business has some inherent strengths to be able to pursue a harvesting strategy. As Porter (1980) notes, a firm without relative strengths will most likely not reap a significant increase in cash flow. Additionally, firms adopting the harvesting strategy can encounter difficulties in maintaining supplier and customer confidence (Harrigan & Porter, 1983).

Quick Divestment

The final end-game strategy is for the firm to make a quick divestment and exit. This strategy presupposes that the maximum return on business investment is achieved through an early sale and exit as the uncertainty of whether the industry is facing a decline or not still remains. Sometimes, it is desirable to divest already before the start of the industry decline as buyers’ bargaining power is lower than when the decline is certain (Porter, 1980). As Harrigan and Porter (1983) note however, an early withdrawal from an industry is forcing the company to confront its own exit barriers, such as relationships with customers.

Next, we will continue to the last part of the frame of reference, which will assess the key factors influencing strategy in declining industries.

2.5 Factors influencing strategy

We have divided the literature on factors that influence firm strategy into two categories, external and internal factors.

2.5.1 External factors that influence strategy

There is a fierce debate within the literature on whether it is the firm-specific capabilities or the industry characteristics that explain firm performance (Karniouchina et al., 2013; O’Regan et al., 2011; McGahan & Porter, 1997). Some authors argue that the structure of the industry is the main driver of firm performance (McGahan & Porter, 1997). In terms of the industry life cycle, Karniouchina et al. (2013) relates to this by studying how a system of industry elements affects firm performance over the various cycle stages. Their findings suggest that as the industry grows and ages, industry effects will have a stronger impact on firm performance as the industry moves from heterogeneous to standardized procedures, which is common in the decline stage.
A prominent theory that describes the external factors on firm performance is Porter’s five forces (1979). This theory outlines five main forces of an industry’s underlying structure that shape a firm’s strategy. These five forces being rivalry among existing competitors, threat of new entrants, bargaining power of suppliers, bargaining power of buyers, and threat of substitute products. Porter (2008) argues that the defense of a firm against these forces is crucial to the formulation of its strategies. Hence, in terms of the industry life cycle, this would imply that the declining stage urges firms to adapt their strategies to the characteristics of the environment, i.e. extremely intense competition, a high bargaining power of buyers due to dwindling demand, and unutilized capacity.

When choosing a strategy in a declining industry, there is a possibility that the performance of the firm and its chosen strategy is affected by the competitors’ strategies. Lamont et al. (1995) argue that in a munificent industry, i.e. where resources are plenty, companies are independent of each other, whereas in an industry characterized by scarce resources, the companies become more strategically interdependent. Teece et al. (1997) wrote that game theory might be a way to outperform competitors through strategic investments, control of information and pricing strategies. However, Kelley and Thibaut (1978) found that some strategies can be mutually destructive, leading to all incumbent firms being worse off than before, a notion hinting to why some declining industries are characterized by destructive competitive behavior.

2.5.2 Internal factors that influence strategy

Critics of the notion that external factors are the main influence on firm performance argue that it fails to place a significant emphasis on firm-level characteristics, such as internal resources or firm-specific capabilities, and that it does not explain any variances in performances between firms within the same industry (O’Regan et al., 2011; Pelham, 2000). For example, O’Regan et al. (2011) investigated the differences in influence over firm performance between industry and firm factors and found that the industry in general has little effect on the performance of a single firm. Further, (Teece et al. 1997) argue that differences in firm performance are explained by scarce, idiosyncratic resources and capabilities. This argument is largely based on the resource-based view (RBV) of the firm, which was introduced by J. Barney in 1991. The RBV theory was developed to help firms analyze their competitive position relative to their competitors, and the core idea is that a firm’s strategic resources are heterogeneous and a source to competitive advantage (Barney, 1991). In the literature on growth strategies, this notion is supported by Barbero et al. (2012), who argue that a growth strategy must take advantage of a firm’s resources, capabilities and the external environment in order to establish a competitive advantage.

The argument that resources are scarce and heterogeneous puts a strong pressure on managers to employ them successfully. Hence, the RBV theory implies that firms are highly dependent on the discretion of their managers, which hints of the importance of human capital resources within the firm (Barney, 1991; O’Regan et al., 2011; Pelham, 2000). In relation to this, Teece et al. (1997) argue that the development of skills,
management of knowledge, and learning are main pillars of a firm’s strategic choices. On the topic of managerial discretion, Pelham (2000) highlights the importance that managers continuously need to monitor the customer’s needs and appropriately respond to opportunities and threats based on those needs. His study of small and medium enterprises found few significant relationships between industry conditions and firm performance. Instead, he found a stronger relationship for small and medium enterprises between market orientation-performance and strategy-performance, and between the firm’s internal factors such as the CEO’s impact on the firm culture.

Whether the practitioners actually perceive the industry as declining has also been proven to be relevant for strategy adoption. For example, Bamiatzi and Kirchmaier (2014, p.279) argue that a manager’s view of the environment can “alleviate significantly any negative effect associated with it”. Firms have also been shown to differ in their ability to forecast the industry outlook and then take appropriate measures (Schreuder et al. 1991). Indeed, some managers fail to look at an industry from an objective perspective (Harrigan & Porter 1983; Porter, 1980). The reasons for this could be that managers’ identification with the specific industry limits their ability to see possibilities. For example, they can identify themselves with the industry too much or fail to realize possible substitute products (Porter, 1980). Companies that have been successful in declining industries have had managers who tended to view decline as an opportunity rather than a threat (Harrigan & Porter, 1983).

As an advancement of the resource-based view, Teece, et al. (1997, p.244) developed the theory of dynamic capabilities, defined as “the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments”. They suggest that the firm possesses specific capabilities, i.e. the ability to combine competences and firm-specific resources according to the changing environment, in order to generate competitive advantage. Moreover, Teece et al. (1997) state that timely responses and rapid product innovation through the manager’s capabilities to use both internal and external competences is a key to success. Hence, the dynamic capability theory suggests that the firm needs to use its internal resources to respond to external industry forces, which would imply that both internal and external factors are influential on strategy.

2.5.3 The influence of firm size on strategy

It is difficult for both small and large firms to compete effectively in adverse climates (Hall, 1980). However, there appears to be some differences between the strategies of small and large firms in declining industries. Bamiatzi and Kirchmaier (2014) found that most small and medium sized companies achieving high growth in declining industries adopt a combination of four strategies: differentiation through product or process innovation, product customization, low cost production, and low pricing strategies. Even though most firms in Bamiatzi and Kirchmaier’s (2014) study adopted a low cost production strategy, not a single one of them sought to achieve cost leadership due to their inability to achieve sufficient economies of scale. This is further supported by Covin and Slevin
(1989), who state that small firms are more vulnerable to hostile environments than large firms due to their limited possession of resources relative to their larger counterparts.

Gundry and Welsh (2001) claim that small and medium enterprises who pursue high growth, seek to expand their markets in order to improve performance. This is supported by Pearce and Michael (1997), who argue that an increase in geographic coverage improves an entrepreneurial firm’s performance in adverse environments. This contrasts with theory on multinational corporation strategies in declining industries, where for example Buckley and Casson (2007) argue that internationalization allows the firm to reduce its dependence on its home market, expanding the customer base and reduce the vulnerability against market fluctuations. Again, it appears that the amount of firm capital plays a major difference between small and large firms. In general, it is assumed that large firms are better equipped to fight a declining demand and price wars, and that small firms are more vulnerable to harsh environments (Bamiatzi and Kirchmaier, 2014).

To summarize the debate, there is no unified view within literature on which paradigm that really drives firm performance and the adoption of strategies. However, firm-specific factors seem to be the most embraced explanation among scholars. It appears that the reality is complex and that both the industry structure and the firm’s resources have some influence on strategy adoption, and that the main issue is to decide upon which of these influences that should be taken into consideration by managers when shaping the firm’s strategy (O’Regan et al., 2011). From this debate, we find it highly interesting to investigate managers’ perspectives on factors affecting strategy adoption of firms in declining industries.
3. Methodology & Method

This section is divided into two parts. First we introduce our methodology, in which we outline our research philosophy and approach, and provide arguments for its relevance in our study. This will be continued by a presentation of our chosen method and research design.

3.1. Methodology

Saunders, Lewis and Thornhill (2009) label the act of seeking to understand and explain a particular set of circumstances in unique, complex business situations as interpretivism. Interpretivism seeks to develop an understanding of the differences in the ways people act and embraces the notion that business situations are unique and complex situations (Saunders et al., 2009). We find this approach to be the most appropriate to fulfill the purpose of our study for two main reasons. First, considering that our problem is socially complex and cannot be measured simply by gathering and analyzing objective data, we find it necessary to perform a qualitative study. Second, the fact that there is no guiding framework for how to adopt a strategy in declining industries supports the development of a deeper understanding of the strategies in declining industries, by exploring whether the pursuit of growth is part of that process. Since we believe that business situations are unique and complex, we find it appropriate to develop this understanding by taking the perceptions of interviewees into consideration, rather than using objective data. Hence, it is not possible for us to gather value-free data, which would respond to a more positivistic approach where social reality is considered to be completely observable (Saunders et al., 2009), and our research philosophy is therefore interpretivism.

We have adopted a research philosophy and will consequently decide on a research approach. In terms of research approaches, there are three main categories: deductive, inductive, and abductive. Saunders et al. (2009) describe a deductive research approach as the development and testing of theories that anticipate the outcomes of certain phenomena, which are then confirmed or reworked. In contrast to deduction, Saunders et al. (2009) describe the inductive approach as observing a phenomenon and subsequently developing a theory by analyzing and interpreting the result. Finally, the abductive approach involves combining developed theory with empirical findings, which enables the researcher to understand and interpret both empirical findings and theory (Dubois & Gadde, 2002). Saunders et al. (2012) describe abduction as the process of using known premises to generate testable data. Further, they note that through abduction, the researcher is “incorporating existing theory where appropriate, to build new theory or modify existing theory” (Saunders et al. 2012, p.144).

We will combine a deductive approach, where we bring a theoretical perspective with assumptions from previous literature, with an inductive approach, where we address the gap in existing literature on strategies in declining industries with multiple case studies. Our research approach will hence be abductive.
3.2 Method and Research Design

3.2.1 Case Studies

This study aims to be of mostly exploratory nature in order to develop new insights into strategy adoption in declining industries. According to Yin (2009), a case study enables the researcher to obtain a detailed understanding of managerial processes, which fits well with the purpose of this study. Further, Saunders et al. (2009) state that multiple case studies may be preferred over singular one due to the enhanced ability to investigate if observed phenomenon appear in several situations. Additionally, they state that a study performed at a particular time is defined as a cross-sectional study, while studying a phenomenon over time is defined as a longitudinal study. For these reasons, we will perform multiple case studies on a total of five firms in two industries in order to fulfill the purpose of this paper. In addition, we will support our case studies by including two suppliers, one industry association and one media publisher. Due to time constraint of this project, the case studies will be cross-sectional.

3.2.2 Data Collection and Data Analysis

Four main themes are included in the theoretical framework: 1) Industry evolution and decline, 2) Porter’s generic strategies and growth strategies, 3) Strategies for declining industries, 4) Key factors influencing strategy. Our search criteria have also rendered some concepts and theories inappropriate for our study. Examples of excluded theory are portfolio matrices like the BCG-matrix and Shell’s directional policy matrix which we have regarded as having low applicability to our field of study. The latter builds on the BCG-matrix but has not been widely referenced throughout literature.

The review of existing research on the topic will be supplemented by qualitative data from firms that currently operate in declining industries. This data was collected in order to complement existing literature and provide a firmer understanding of the problem. We collected primary data by conducting interviews with managers in different positions that had insight into the strategy in the five firms chosen for this study, two firms in the Swedish retail fuel industry and three in the Finnish printing industry. Additionally, to contrast the responses from the five companies, we have also conducted interviews with two suppliers, one industry association and one media publisher, all related to the Finnish printing industry. All interviews were made over telephone and in total nine interviews were made. The interviews were semi-structured, which allowed for differences in respondents’ responses and organizational contexts, which fits with our exploratory approach (Saunders et al., 2009). In contrast to structured interviews, semi-structured interviews allowed us to explore our interviewees’ answers by allowing them to further explain and develop their responses, which in turn may add new dimensions that have not been addressed in our theoretical framework but still are important to our study (Saunders et al., 2009). The length and date of the separate interviews can be seen below in table 2. Some of the respondents expressed the wish to remain anonymous. To fulfill this request we have concealed both firm and personal identity of all interviews in this study.
The collected data will subsequently be analyzed and combined with existing literature on declining industries. By integrating existing literature with an exploratory study on the gap of growth strategies in declining industries, we seek to further explore the strategies that are available to firms in declining industries than what current literature suggests.

The interview questions are derived from our research questions and the themes outlined in the frame of reference: i.e. the industry characteristics, Porter’s generic strategies, growth strategies, and key factors that influence strategy. We adapted our interview questions to fit the four respondents that were not directly operating in the industries. The interview questions can be found in appendix 2 and 3.

Our findings will be analyzed with aid of Eisenhardt’s (1989) cross-case method for analyzing qualitative case studies. This is done by categorizing the data according to specific topics, which is followed up by an exploration of connections and patterns between the different cases in order to find similarities and contrasts (Bamiatzi & Kirchmaier, 2014). When selecting categories with which the cases will be analyzed, we have in accordance with Eisenhardt’s example developed our categories from our interviews and existing theory, while complementing them with an additional dimension for growth in order to be able to answer our research questions. The results from our empirical research have been summarized in table 3.

We will analyze our findings on both a firm and an industry level. At the industry level, we will look both within and across the industries. The results will be juxtaposed against existing theory with three questions inspired by Eisenhardt (1989): 1) What theory is the finding similar to? 2) Does it contradict existing theory? 3) What are the underlying reasons of the similarities and differences?

3.2.3 Case Selection

We have chosen to study two industries: the Finnish printing industry and the Swedish retail fuel industry. We found these industries to meet the requirements for being included in this study according to the previously outlined definition of a declining industry. In the selection process we aimed to gather information from the main incumbents in the two chosen industries. The two industries will be introduced later in this section.

The Swedish retail fuel industry only includes four firms, out of which two accepted our request for an interview. Although two interviews from one industry might seem like a small sample, we find it to be sufficient to learn about the industry since our selection represents half of the firms in the industry.

In contrast to the Swedish retail fuel industry, the Finnish printing industry is characterized by a substantially larger number of firms. Further, a majority of the Finnish printing companies are small companies (Graafinen Teollisuus Ry, 2015). In order to both understand and capture a versatile perception of the industry, our interviews
consisted of three companies in the operational sector of the industry, two major suppliers of the industry, one industry association and one media publisher. By doing so, we were also able to get firm understanding of how the decline has affected the strategies within the operational sector of the industry.

3.2.4 The Swedish Retail Fuel Industry

The topic of climate change and the effects of carbon emissions have been vastly debated subjects on a global level for many years. In the oil industry, the discussion has mainly focused on the carbon emissions that result from the usage of fossil fuels. Their negative climate effect has led to an increased political pressure to develop more sustainable alternatives, such as biofuels. In 2014, biofuels accounted for 3% of the total consumption of propellants in the transport sector and is expected to rise to 8% in 2035, and out of these, ethanol is the most commercial product yet with around 75% of the total sales volume of biofuels in 2014 (SPBI, 2014). On the topic of carbon emissions, the European Commission (2015) agreed in 2014 on a framework of policies that aims to reduce greenhouse gases by 40% compared to 1990.

The Swedish retail fuel industry is highly concentrated, where the market share of the four dominant players for petroleum and diesel products combined is over 99%. The total sales of fuel in the Swedish market decreased with 6% between 2007 and 2013. More efficient engines and increased sales of diesel engines are seen to be main reasons for this decline (SPBI, 2014). In a longer perspective, the total sales of gasoline have decreased by 38% between 1989 and 2013 (SPBI, 2014). However, there is a rise in the sales of diesel, where the renewable product Hydrogenerated Vegetable Oil (HVO) is one of the main reasons for the increase. In addition to decreased sales of propellants overall, more efficient fuel consumption has led to a decrease in customer interactions with gas stations to refuel their vehicles, which has led to a sharp decrease of roughly one third of the number of gas stations in Sweden between 2003 and 2014 (SPBI, 2014).

Hence, it is clear that the retail fuel industry in Sweden has a major challenge to cope with increased political pressure to develop renewable products that meet regulatory requirements, combined with decreasing sales due to more efficient engines. Due to an overall decrease in sales and a negative outlook for fossil fuels, which are the main characteristics of the industry today, we can label this industry as declining according to our previously outlined definition.

3.2.5 The Finnish Printing Industry

The Finnish printing industry includes traditional printing, publishing and printing related services. Therefore, both traditional manufacturing and modern communication service business are parts of the industry. Additionally, many of the companies in the industry are involved in online marketing business and in the development of new communication products and services (Graafinen Teollisuus Ry, 2015). The European printing industry as a whole is facing times of unpredictable changes. During the 21st century, trends such as digitalization have led to increased competition through new
forms of technology, price cutting due to overcapacity in the local markets, as well increased global competition. Further, the global economic crisis has put a significant amount of pressure on the printing industry. Together, these dimensions resulted in a decline in the entire European printing industry (Facta Consult, 2012). These dramatic changes have also been present in the Finnish printing industry (Graafinen Teollisuus Ry, 2015).

The Finnish printing industry currently consists of 916 companies, out of which 772 are small companies with less than ten employees, 144 companies with ten or more employees, and 19 companies with 100 or more employees (Krogell, 2014). The main products of the Finnish Printing Industry are newspapers, magazines and books, which together account for 75% of the total industry revenue. Other products are versatile printed advertising products, catalogues, packages, calendars, labels and other similar products (Graafinen Teollisuus Ry, 2015).

The global trends in the industry have resulted in major challenges in the Finnish printing industry. For example, online advertising is becoming the most used marketing channel in Finland, and the increasing use of online information sharing and communication tools have caused the total revenue of the Finnish printing industry to decline by almost 400 million euro between 2007 and 2014 (Krogell, 2014). At the same time, the number of employees within the industry has dropped from 11,356 to 8,611 and the number of companies has dropped from 1,140 to 916 (Krogell, 2014).

There has also been a decline in the industry’s net exports. During the last two years, the total exports of the Finnish printing industry have dropped by almost 50 million euro, whereas the value of imported products has increased (Krogell, 2014). The main countries to which Finnish printing firms export are Sweden, Russia and Norway, whereas the main origins of imports are from Sweden, Germany, United Kingdom and Denmark (Krogell, 2014).

Comparing the different sectors of the industry, it can be noted that digital printing and fast printing have been the growing sectors in the Finnish industry. Additionally, the packaging sector has enjoyed positive quarters in the last two years giving at least minor positive prospects for the industry in the future (Graafinen Teollisuus Ry, 2015).

Due to the decreasing sales levels and the decreasing amount of competing firms, the industry can be labeled as declining in accordance with our previously outlined definition.

3.2.6 Ensuring the Quality and Credibility of the Study

In this study we have taken steps to ensure that we are consistent in our research process and that our findings are trustworthy. According to Zucker (2009), the trustworthiness of a study may be improved by having a clear methodology. We have sought to do so by explicitly and systematically outlining our research philosophy and research approach, and we have strived to be in line with these throughout the whole study. In addition, Alvesson and Sköldberg (2000) suggest that consistency should be pursued throughout a
study in terms of the research questions, theoretical framework and methodology, which we have strived to adhere to as much as possible.
4. Empirical findings

In this section, we will present the results of our interviews in three categories: The Respondent’s View of the Industry, Strategy and Key Factors That Influence Strategy.

An overview of the interviews can be seen in table 2 below. In total, nine interviews were carried out, out of which five interviews were made with companies operating in declining industries. In addition, we included two suppliers, a media publisher and an industry association, all within the Finnish printing industry.

<table>
<thead>
<tr>
<th>Case</th>
<th>Organization</th>
<th>Industry</th>
<th>Position</th>
<th>Duration (min)</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Company</td>
<td>Swedish Retail Fuel</td>
<td>CEO</td>
<td>126.51</td>
<td>2015-04-14</td>
</tr>
<tr>
<td>2</td>
<td>Company</td>
<td>Swedish Retail Fuel</td>
<td>Head of Corporate Communication</td>
<td>58.03</td>
<td>2015-04-17</td>
</tr>
<tr>
<td>3</td>
<td>Company</td>
<td>Finnish Printing</td>
<td>Production director</td>
<td>51.07</td>
<td>2015-04-08</td>
</tr>
<tr>
<td>4</td>
<td>Company</td>
<td>Finnish Printing</td>
<td>CEO</td>
<td>46.56</td>
<td>2015-04-20</td>
</tr>
<tr>
<td>5</td>
<td>Company</td>
<td>Finnish Printing</td>
<td>CEO</td>
<td>46.26</td>
<td>2015-04-16</td>
</tr>
<tr>
<td>6</td>
<td>Supplier</td>
<td>Finnish Printing</td>
<td>CEO</td>
<td>42.06</td>
<td>2015-04-13</td>
</tr>
<tr>
<td>7</td>
<td>Supplier</td>
<td>Finnish Printing</td>
<td>Product marketing manager</td>
<td>52.07</td>
<td>2015-04-15</td>
</tr>
<tr>
<td>8</td>
<td>Media Publisher</td>
<td>Finnish Printing</td>
<td>Publisher</td>
<td>82.54</td>
<td>2015-04-09</td>
</tr>
<tr>
<td>9</td>
<td>Industry Association</td>
<td>Finnish Printing</td>
<td>President of the association</td>
<td>63.50</td>
<td>2015-04-10</td>
</tr>
</tbody>
</table>

Table 2 – Interview Overview

4.1 The Swedish Retail Fuel Industry

Case 1

This company is an energy producer, fuel producer, and a fuel retailer. Its vision is to be the leading producer and seller of CO2-friendly energy in the market. Its operations span from refinement of crude oil into fuel products to retail operations with sales of propellants to the end consumer. It does not own any oil sources. Its products are sold both to private customers and B2B customers within its network of retail sites, industry and marine customers, and other oil companies. The respondent was the CEO of the company.

The Respondent’s Perception of the Industry

According to the CEO, the industry is declining and the main driving force behind the decline is environmental concerns. He states that the decline of the industry is politically
driven and is coordinated on a geopolitical level with the purpose of moving from fossil fuels to more sustainable solutions.

He believes that there will continue to be a declining demand for fossil products, which will lead to a decreased interest from holders of capital, who will choose to place their capital into high-growth markets instead. Therefore, the company has started to research for potential substitute products on a national level in cooperation with the Swedish forest industry. The company will in the near future focus on selling ethanol, which can replace the use of fossil fuels in their existing fuel products.

In the long run, the CEO believes that since different nations possess different natural resources, this will lead to many different renewable solutions. Hence, he believes that we cannot expect the industry to find the right and wrong alternatives too but that we most likely will find that through trial and error. Despite this, he sees the industry as attractive in the future:

“When you are faced with industry changes where the product you are producing will decrease in sales, there is often the case that the need of the customer still will be there, but in a different form. The company then has the alternative to integrate itself with the new product and accept that the presumptions to play in the market are different.” - CEO of case 1

Strategy

The firm entered the market during the decline and designed its entire business model in order to meet industry conditions. According to the CEO, the main strategy is cost leadership. The company has adjusted by making its operations more efficient, and continued to sell traditional products while relocating the profits from that into the development of the products that the politicians have outlined as the future market. Further, the company seeks to differentiate itself through marketing activities such as increased transparency. It has also adjusted its customer base to increase the number of profitable customers and spread its risk in order to not rely on a few large ones.

The company actively pursues growth. Its strategy is to reap the profits from the declining products and reinvest it in growth products. It seeks to mainly grow organically through increased marketing activities to increase awareness, and transparency towards its customers. The company does not make any investments at all in traditional oil products with its own capital. Instead, it borrows money to do that and places its own capital into new projects. For example, the company has invested heavily in a new lab that seeks to develop renewable ways to produce diesel, and in the production of renewable electricity through wind mill farms. The company itself originated through an acquisition of an existing retail network, which was previously owned by a global player that chose to exit the Swedish market, and the company has since then made further acquisitions in order to grow. Additionally, he states that “The by far most important type of growth that you can achieve is organic growth on existing infrastructure.”
**Key Factors That Influence Strategy**

Regarding external factors, the CEO sees them as highly important. According to him, there is a need to be fully updated with the regulatory framework and the geopolitical questions of the industry, such as EU regulations, taxation and exemptions. When it comes to internal factors and strategy adoption, he believes that the organization needs to have the capabilities to compete effectively according to the external environment. Additionally, he believes that you need strong leadership that can motivate and direct the organization. Further, he questions the notion of firm size but emphasizes the need to be non-bureaucratic and flexible.

**Case 2**

This company is both a fuel producer as well as a fuel retailer, with a vision to lead the transformation towards a sustainable society. Its operations range from producing and distributing to retailing of fuel. Its retail operations are limited to the Swedish market but it has a large export business of produced fuels. The company does not own any oil sources. Its products are sold both to private customers and B2B customers within its network of retail sites, industry and marine customers, and other oil companies. The respondent was the Head of Corporate Communication.

*The Respondent’s Perception of the Industry*

The respondent points out that the global oil industry is not declining. However, the retail fuel industry in Sweden has declined mainly due to the increased efficiency of engines, according to her. This, she argues, causes people to refuel their vehicles less often which leads to fewer interactions with the customers and decreased sales. She sees the increased political pressure as a possibility for competitive advantage since it works actively to develop renewable products.

In the short-term, she believes that the total sales will decrease due to continued environmental political pressure. However, she argues that there will continue be a market for products such as petrol and diesel and that 97 % of the car fleet in Sweden still runs on these products. At the same time, she believes that there will be an increased demand for renewable products. Although she finds the industry attractive, she recognizes a major challenge to successfully transform from fossil products to renewable alternatives. According to her, the biggest challenge is that renewable materials currently are far more expensive than the fossil alternatives.

*Strategy*

The company mainly seeks to differentiate itself through market-orientation by seeking to meet the needs of its customers, mainly by developing renewable fuel products. The company also seeks to be cost-efficient in its internal processes, but the respondent sees that as a result of the fact that customers are price sensitive when it comes to propellants:
“For example, you would be much more willing to pay for a watch... it’s even more fun to buy toilet paper... but no matter how much money you have you will never want to purchase fuel”. She adds that the low margins in the industry leave little allowance for price differentiation.

According to her the company has adjusted its strategy to the decline in fossil fuels. She notes that the development of the industry has forced many closures of gas stations. Therefore, the company needs to increase the sales impact of each station and it needs to have a certain amount of customers per station in order to be profitable. She argues that optimization of locations has become critical. Further, one of the company’s main strategies is to switch to renewable resources that are compatible with the engines of today and be a first-mover in that shift.

The company actively seeks to achieve organic growth by finding new locations to establish gas stations. Further, the company seeks to pursue a range of strategic alliances across several different industries in order to increase the value to the customer, for example in the forest industry in order to develop renewable products. The aim is to build a new kind of loyalty among its customer base. The company may expand its network of gas stations to other countries if the right opportunity arises. Since it is expensive to set up entirely new stations, the respondent believes that it would mainly be done through acquisitions. Additionally, she argues that the company is not that big in the retail part of the industry. Therefore, the company actively seeks to increase the number of stations.

**Key Factors That Influence Strategy**

According to the respondent, the strategy of the company is highly influenced by external factors. She perceives the regulatory framework to be the most important external factor, but that the customer demand and location of people are highly important factors as well. She also finds internal factors to be of strong importance. She perceives the most important internal factors as the possession of the competence and technique needed to adjust its refineries to transform its production to renewable products.

### 4.2 The Finnish Printing Industry

**Case 3**

This company focuses mainly on the production of marketing material such as printed and online products. The company is one of the largest companies in the Finnish printing industry, providing a wide variety of services, from traditionally printed products to online advertisements and online storage. They also offer a traditional copying service and a logistic service with the aim of delivering products conveniently to the customer. The company is the result of a merger of two large Finnish companies around one year ago, as a response to the industry decline; one from the service industry and the other
from the traditional printing industry. The respondent is the Production Director of the company.

The Respondent's Perception of the Industry

Although the respondent recognizes that the industry is declining, he still considers it to be attractive and containing a lot of opportunities for firms to exploit. Further, he expects that there will be a transformation of the industry which will mainly be characterized by company consolidations. There might also be a “renaissance” for the products in the future according to the respondent. Traditional mail advertising, QR codes and packaging are possible future business opportunities. The already intense price competition will most likely also result in lower wages for the employees in the industry according to the director.

The interviewee considered the rapid technological development to be the main reason behind the industry decline. As the technology within the industry has become more available to firms, it has become harder for the firms to reach competitive advantage and differentiation through simply employing advanced technology, as many firms are now using the same technology.

According to the production director, this has led some firms to disregard markups in order to outperform their competitors, resulting in low profitability. Additionally, the production director mentions that incumbent firms have not understood the possibility of service being a method of differentiation in the industry.

Strategy

The director states that it is hard to specify one main strategy that the company follows, but he would overall label the company strategy as differentiated. The larger size of the company with variety of products and services, gives the company an opportunity to compete for extensive partnerships with large customers. However, a weakness of the larger size is that it is not profitable to serve small customers due to company’s higher operational costs. Taking this into consideration, he mentions that the company’s most significant change after 2007 has been a reconstruction of their sales organization to identify their target customers in order to cope with the industry decline. In addition, the company has gone through several other operational changes such as extending and developing their product and service portfolio. To succeed, the director says that differentiation seem to be the key.

Before the merger, the two companies had pursued growth in two different ways: one organically and one by acquiring small companies. One of the merging companies was specialized in traditional printing merely and therefore they mainly grew by acquiring small printing companies in regional Finland to offer services all over the country. At the same time, the other merging company was specialized in services and grew by building wide variety of added value services around its product through continuous investments.
in new technology. The current company collaborates with its main competitor in Finland through joint ventures abroad.

**Key Factors That Influence Strategy**

When it comes factors influencing the company’s strategy, the respondent states that the firm’s large size is affecting their strategic direction and it is making decision-making more difficult. As the main internal influence, he identifies highly skilled employees building a basis for the company’s strategy. The threat of substituting products is one of the major external influences on their strategy. These substituting products could for example come from the media industry or Internet-based services. On the question whether the firm’s competitors influence their chosen strategy, the respondent states that the number of firms in the industry makes it complicated to completely monitor what other firms are doing.

**Case 4**

This company is also one of the largest companies in the industry and operates in many business sectors such as digital printing, large image printing and technical drawings. Further, the firm offers translation services as well as online information banks. In addition to the operations in the printing industry, the company has recently invested in 3D-printing, which the respondent sees as an attractive opportunity in the future. The respondent was the CEO of the firm.

**The Respondent’s Perception of the Industry**

The CEO considers the trend of digitalization to be the main reasons for the decline in the printing industry. However, he believes that the industry will not die out and that the volume-related decline that the industry has been experiencing will flatten out in the future. He thinks that there will not be many new entrants in the future, despite the industry being attractive. Additionally, the CEO thinks that there will be more consolidations taking place within the industry. Despite that the company’s current expansion into Estonia has been negatively affected by the changes taking place in the industry, the CEO see opportunities in acquiring firms in markets abroad. There also seems to be pockets of demand for specialized products in the future, according to the CEO. The demand for printed QR-codes as well as packaging for products bought online will increase in the future.

**Strategy**

The CEO considers the company to follow a differentiation strategy. However, they offer a wide array of products and services. The company adapted their main strategy when the trend toward digitalization became apparent, and by doing this early, they have enjoyed an advantage over competitors. For example, the sales organization had to be restructured to fit the new needs and to focus on the right customers. One of the reasons
for the company’s success in the industry is that they have focused on delivering services around their products, such as a translating service. Regarding growth, the company has mainly grown through acquisitions, apart from some organic growth. For example, they have bought out competitors harming their operations in different regions of Finland to reach a superior position in as many regions as possible. Additionally, the current company collaborates in a joint venture with its biggest competitor in Finland abroad through mutually owned subsidiaries. Apart from the operations in the printing industry, the company has made investments in 3D printing sector in which they expect to see opportunities in the future.

**Key Factors That Influence Strategy**

The CEO considers the competition in the industry to be characterized by price competition. Smaller firms without a capacity to invest are mainly those pushing down prices. The firm also closely monitors competitors’ actions in order to stay competitive, however this does not have a strong effect on its strategies. Despite its large size, the CEO sees the firm size as an advantage rather than as an obstacle to strategic action. Further, the larger size allows them to invest in risky projects with unpredictable outcomes. He identifies unpredictably arising substituting products from other industries as the main external threat. Whereas the key internal influences of the company’s strategy, he identifies highly skilled employees and leadership.

**Case 5**

The company is a medium-sized actor in the Finnish printing industry that offers printed marketing products with both traditional and digital equipment. Additionally, they offer variety of online marketing products as well as online solutions around their products. The company’s aim is to be their clients’ only marketing production partner by offering all the products and services that their clients need. The respondent was the CEO of the company.

**The Respondent’s Perception of the Industry**

The CEO notes that while the industry is declining, the largest drop in the demand for current products has already occurred. In addition, the respondent mentions that there are opportunities in the industry, which will ensure profitability and longevity for firms, although the firms will need to change their operations to survive. However, he states that there will be resurgence in the demand for printed products in the future. According to the CEO, the industry has not been good at marketing the benefits of printed products. Printed products still account for 50% of the advertisements done in Finland.

As the main reason for the decline the CEO mentions the trend toward digitalization, which brings traditional services online. The alternatives to traditionally printed products has increased and made some products, such as magazines, less attractive.
Strategy

The company does not claim to pursue a cost leadership strategy, despite maintaining a tight cost control within the firm. The CEO states that the firm’s main strategy is to differentiate itself by offering the customers something that cannot be found elsewhere. Apart from technological changes, the firm has adapted its sales organization by for example changing its customer segment. Additionally, the firm has educated employees to be more versatile to meet customer needs. The CEO stresses the importance of cooperation to be able to offer a wide array of services. Finding good partners is a good way to be able to differentiate according to him. Further, the firm seeks to achieve profitable growth. The company has adapted its strategy to the decline and sees itself as being early to do this. Apart from technological changes, the firm has adapted its sales organization by for example changing its customer segment.

Despite some years characterized with negative financial growth, the CEO concludes that the firm has overall been able to grow despite the industry decline. Growth has been mainly organic through an increased number of customers. As the firm is of a medium size, the CEO claims that they can make quick decisions according to changes in the industry.

Key Factors That Influence Strategy

The CEO identifies substituting products and new entrants in the market as the two main external threats facing the company. The CEO sees competitors as being not only firms in the printing industry, but that they also compete with firms in the marketing and communication industries. Competition within the industry is characterized by price competition, but the CEO notes that the more successful firms have managed to specialize and differentiate. As the main internal influence on the company’s strategy, he identifies highly skilled employees pursuing new ways to develop their operations.

Case 6

The company is the main printing paper supplier of the Finnish printing industry. Its operations consist of wholesales-, delivery of the printing paper as well as offering credit to its customers. The respondent was the CEO of the company.

The Respondent’s Perception of the Industry

The CEO states that the digitalization is the main explanation for the decline of the printing industry. At the same time the demand for printing paper in Finland has dropped with 60% in the past years. He also acknowledges that increased international competition, mainly from Poland and the Baltic states, has played a significant role for the decline. The CEO does not believe that the market will disappear completely and that there will continue to be a demand for printed products. However, he argues that it will continue to transform and that the number of players will decrease.
Strategy

According to the CEO, the company has made dramatic changes in its business model to face the decline: “It’s totally impossible to continue with the same business model when the industry is falling under your feet”. Further, he claims that the companies in the printing industry that have survived have been able to differentiate themselves. He further states that it is harder for them as a supplier as they mainly trade with a commodity and do not have the same possibility to differentiate. Therefore, the company does not pursue growth and has focused on being a cost leader, largely through outsourcing everything that is reasonable to outsource for its operations. Further, by outsourcing, the company has been able to change most of their previous fixed costs into variable costs, which makes it possible to survive even during the rough periods of times.

Key Factors That Influence Strategy

The CEO states that you need to be aware of the market size. For example, it is easy to copy strategies from larger markets such as Germany. However, he argues that a small market like Finland is different due to a smaller customer base. Internal factors such as maximizing shareholder value and diversity of the board are influential.

Case 7

The company has a business sector that operates as a supplier of equipment such as digital printers, large format printers and software to the Finnish printing industry. The company develops their products by closely monitoring the industry for new trends and needs and develops products to meet these. The respondent is the product marketing manager of the Finnish operations in this sector. His tasks include leading production, advertising, managing public relations and all communication related tasks within his business area. The respondent explains that the company is a relatively new player in the industry focusing on digital printing solutions, which has been one of the only growing sectors of the Finnish printing industry.

The Respondent’s Perception of the Industry

The respondent notes that increasing international competition has had a negative impact on net exports of the Finnish printing industry due to low cost countries such as Baltic and Poland acquiring high volume orders. Further, trends such as digitalization and increasing investments on online advertising will result in continuing decline in the Finnish printing industry, but the respondent expects the speed of the decline to decrease in the future. In the long-run, he does not believe that the main part of the industry revenues will be derived from printed products, but that there will be a transformation from traditional printing products to more modern ones such as online media production and versatile cross media solutions, i.e. the combination of different marketing channels through networks of companies in different niches. Hence, there will be a transformation from traditional printing companies to marketing service providers,
which is already happening at the larger companies within the industry. Additionally, the respondent believes that personalized and customized customer solutions will become increasingly important.

**Strategy**

The respondent states that the companies that have been successful in the printing industry have adapted their strategies to the decline by providing added value services around their products since it is hard to compete with low cost against firms from the Baltic countries, who face lower labor costs. Further, he believes that specialization will play a significant role for companies in their efforts to adapt. He argues that they need to identify their core capabilities and focusing on developing those parts of their businesses. When it comes to the pursuit of growth, the respondent acknowledges that some of the company’s customers have been able to grow, where the trend has been that large companies have been acquiring smaller ones to enter into new regions and increase their overall market share. According to him, some companies have been pursuing organic growth, despite acquisitions being the dominant way to grow.

**Key Factors That Influence Strategy**

Regarding external factors, the respondent argues that the main factor affecting the Finnish printing industry is currently the competitions from international players pushing down the prices. At the moment, he mainly sees that the industry is characterized by price play and argues that companies need to specialize and differentiate themselves in order to increase the margins. According to him, the main capabilities of the customers of the company that have been performing well are brave entrepreneurship and continuous search for new business opportunities, strong leadership culture, and a professional and motivated organization.

**Case 8**

The firm is the leading media publisher of the Finnish Printing Industry. The company publishes a magazine that comes out nine times per year and daily news about the Finnish Printing industry on its website as well as in email newsletters. The main activity of the company is to follow the industry closely and provide its customers with ideas on how to develop their businesses by focusing on the producing side of the industry. On its website it introduces new products and in the magazine it publishes its own thoughts about the industry and its future. Once a year, the firm publishes the annual results of the industry, including the financial results of each company and the total revenue of the industry. The respondent was the publisher of the company.

**The Practitioner's Perception of the Industry**

According to the publisher, the main reasons for the industry decline are digitalization and the Finnish companies’ slow reaction to the changes in the market, resulting in
decreased competitiveness against their international competitors. Regarding the future of the industry, he doesn’t believe that the industry will die out, although it will transform dramatically due to increasing need of full range of advertising and international price competition. Therefore, he still finds the industry attractive due to existing opportunities with printed products and growing opportunities such as packaging. He believes that the total revenue of the Finnish Printing Industry will continue to decline until a new equilibrium is found somewhere close to 1 billion euro annually. Additionally, he expects a large amount of consolidations to happen in the industry during the upcoming years to reach higher economies of scale and efficient production systems.

**Strategy**

In general, the publisher believes that the general strategy to be successful in the industry is to differentiate, since it is hard compete with cost against international competition. He suggests that more companies should focus on brand building and be present online and in several exhibitions to attract the new generation of customers.

According to the respondent, several companies have been able to grow in the industry and there have been successful examples of both organic growth and M&A strategies. He notes that companies that have grown organically have invested heavily on new technology as well as new professionals and kept their business updated with changes in the market. According to him, those companies that have not been able to grow have lacked the skills or the will to transform, and most of these have consequently run out of business. Further, these companies are often small with lack of time to consider new strategic directions as well as capital to invest in employees specialized in business development.

**Key Factors That Influence Strategy**

The publisher finds internal factors such as strong leadership to react quickly to changes in the industry as well as strong long-term vision essential for firm’s successful performance in the future. He also finds it increasingly important to have automatized systems, lean production, smooth information flow and efficient sales organization to compete in an industry characterized by increasing international competition through ecommerce solutions. He suggest that companies should focus on offering wider variety services to create added value and build stronger brand to engage the new generation of customers. External factors are perceived by the publisher as being influential on for strategy adoption. The most important ones for the Finnish industry are according to him substitutable products such as online solutions that do not require physical printing, and international competition due to cheap online solutions from for example the Baltics.
Case 9

This interview is made with the association of the Finnish printing industry. The association collects and manages industry data, such as revenues, and provides it to the actors in the industry. Additionally, it organizes events for educational purposes and works as a lobbying organization on behalf of the companies within the industry. The respondent is the president of the association.

The Practitioner’s Perception of the Industry

The president perceives digitalization of information as the most prevalent reason for the industry decline. Another reason is the decrease of exports from the Finnish printing industry due to decreased competitiveness in the international market, which is derived from significantly cheaper labor in the Baltic countries.

The president expects the industry decline to continue, but at a slower pace than before. He argues that Europe is seven years behind the US and that the US market has stopped to decline. Hence we can expect the European/Finnish market to do so in the coming years as well. He states that there has been a positive trend lately and that companies have started to use printed marketing materials again in the US market. During the coming five years, the president expects the number of employees in the industry to decrease from around 8000 to 5-6000. Since the beginning of the 21st century, the exports of the Finnish graphical industry have decreased from 350 to 150 million euro. However, the president does not find it impossible to return to the previous levels.

Strategy

On the topic of strategies, the president states that too few companies in the industry have focused on having a clear strategy. Instead, he argues that they have focused on doing the same thing as they always have done. He further argues that companies should choose a specific strategy to follow since it is hard to be good at several strategies simultaneously. Further, he states that many companies do not collect data on their products or customers which means that they do not know their customers. He further argues that companies in the industry have not adapted their strategies enough to the decline and rely too much on operating in the same way as they used to do before.

Regarding growth strategies, the president states that organic growth by investing continuously in the latest technology is most common in the industry. As the main strategy to return to profitability, he argues that Finnish companies need to find the courage to start investing in themselves, and internationalize their operations. Some companies have been able to grow through mergers and acquisitions, but it is not that common and he would like to see more consolidations. The president clearly sees a relationship between firm size and strategies. He argues that larger organizations are better equipped to develop their businesses than smaller firms.
Key Factors That Influence Strategy

External factors are seen by the president as highly important. As the most crucial of one he identifies international competition as international companies have started to offer efficient ecommerce solutions with newly launched websites in Finland. Regarding competition, he notes that the industry is characterized by small firms owned by aging entrepreneurs that have lack of funds and are reluctant to invest in new equipment as long as they make a profit. He sees this as a major issue since it results in unhealthy competition destroying mark ups.

The president notes that the companies in the industry do not imitate their competitors’ strategies. For example, one company has taken the initiative to invest in 3D printing, while none of the other actors seem to be inspired by it. Regarding internal factors, the president believes that having the right capabilities and strong leadership is more important factor than having big or small operations. Moreover, staying updated on the news in the industry and finding new ways to have an updated business is argued to be paramount.
5. Analysis

In this section, the results will be analyzed using the theoretical perspectives outlined in the frame of reference together with the result summary (table 3). The chapter is divided into four parts; The Respondents’ Perceptions of the Industry Decline, Generic Strategies, Growth Strategies, and Key Factors That Influence Strategy.

Each part has a structure that we have deemed appropriate for how the respondents have answered to our interview questions and in a way where we have identified the most meaningful relationships. From the analysis, a framework that aims to guide managers in choosing a strategy for a declining industry is derived.

5.1 The Respondents’ Perceptions of the Industry Decline

In the study, eight out of nine respondents employed an optimistic attitude towards the future of their respective industries. Only one company had a neutral attitude towards the future, and none of the respondents believed that the industry would die out completely. An interesting finding is that despite seeing the industry as declining, the interviewees tended to have an optimistic outlook for the future. A possible explanation for this could be that survivorship bias is present among the studied firms, as they were still operating in the industry and not those whom have opted for example for exit. This would also support previous literature in the sense that companies need to adapt their strategies according to industry conditions (Barbero et al., 2012; Parker & Helms, 1992; Porter, 1979).

Harrigan (1980b) states that a firm might choose strategy in accordance with how it perceives the environment. In our study, none of the industries are perceived to be doomed by the respondents. This contrasts with Porter’s (1980) end-game strategies, which assume that all remedies for an industry are exhausted and that companies at best can find a niche market in the declining industry that is profitable, slowly decaying and has a stable demand. However, both Porter (1980) and Harrigan (1980) acknowledge that there may be several types of decline, which range from total obsolescence to revitalization of the industry. From our results, it appears that the end-game strategies would not be suitable for an industry about to revitalize, which shows the need to expand existing literature on strategies in declining industries. All nine respondents believed that their respective industries would experience a transformation, where profitable opportunities were expected. To illustrate, one CEO from the retail fuel industry stated the following:

“When you are faced with industry changes where the product you are producing will decrease in sales, there is often the case that the need of the customer still will be there, but in a different form. The company then has the alternative to integrate itself with the new product and accept that the presumptions to play in the market are different.” - CEO of Case 1
### Case 1

**Industry:** Refining

- **Growth Strategy:** Adjusted to the decline in the industry, possibly a transformation of the industry, with an optimistic view of opportunities.
- **Economic Environment:** Perceived as declining.
- **Perception of the Industry:** Optimistic.
- **Reason for decline:** Industry outlook.
- **Internal Factors Influencing Strategy:** High firm size, highly influential. Leadership capabilities.
- **External Factors Influencing Strategy:** Highly influential. Market size, highly influential.
- **Strategies:** Cost leadership, differentiation.
- **Differentiation:** Slightly optimistic.
- **Cost Leadership:** Slightly optimistic.
- **Growth Strategy:** Optimistic to Slow, transformation, slow decline, transformation.
- **Market Positioning:** Adapted to the declining industry, highly influential.

<table>
<thead>
<tr>
<th>Key Factors Influencing Strategy</th>
<th>Case 1</th>
<th>Case 2</th>
<th>Case 3</th>
<th>Case 4</th>
<th>Case 5</th>
<th>Case 6</th>
<th>Case 7</th>
<th>Case 8</th>
<th>Case 9</th>
</tr>
</thead>
<tbody>
<tr>
<td>High firm size</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Leadership capabilities</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Environment</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Industry outlook</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Market positioning</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

### Case 2

**Industry:** Retail Fuel

- **Growth Strategy:** Adjusted to the decline in the industry, partially transformed, with a neutral view of opportunities.
- **Economic Environment:** Perceived as declining.
- **Perception of the Industry:** Neutral.
- **Reason for decline:** Industry outlook.
- **Internal Factors Influencing Strategy:** Highly influential. Leadership capabilities.
- **External Factors Influencing Strategy:** Influential. Market size, highly influential.
- **Strategies:** Cost leadership, differentiation.
- **Differentiation:** Neutral.
- **Cost Leadership:** Neutral.
- **Growth Strategy:** Optimistic, slowing, transformation, slow decline, transformation.
- **Market Positioning:** Adapted to the declining industry, neutral.

### Case 3

**Industry:** Media Publisher

- **Growth Strategy:** Adjusted to the decline in the industry, highly influential.
- **Economic Environment:** Perceived as declining.
- **Perception of the Industry:** Optimistic.
- **Reason for decline:** Industry outlook.
- **Internal Factors Influencing Strategy:** High firm size, highly influential. Leadership capabilities.
- **External Factors Influencing Strategy:** Influential. Market size, highly influential.
- **Strategies:** Cost leadership, differentiation.
- **Differentiation:** Optimistic.
- **Cost Leadership:** Optimistic.
- **Growth Strategy:** Optimistic to Slow, transformation, slow decline, transformation.
- **Market Positioning:** Adapted to the declining industry, highly influential.

### Case 4

**Industry:** Supplier

- **Growth Strategy:** Adjusted to the decline in the industry, minority transformed, with a slightly optimistic view of opportunities.
- **Economic Environment:** Perceived as declining.
- **Perception of the Industry:** Optimistic.
- **Reason for decline:** Industry outlook.
- **Internal Factors Influencing Strategy:** Highly influential. Leadership capabilities.
- **External Factors Influencing Strategy:** Influential. Market size, highly influential.
- **Strategies:** Cost leadership, differentiation.
- **Differentiation:** Slightly optimistic.
- **Cost Leadership:** Slightly optimistic.
- **Growth Strategy:** Optimistic, slowing, transformation, slow decline, transformation.
- **Market Positioning:** Adapted to the declining industry, neutral.

### Case 5

**Industry:** Internal

- **Growth Strategy:** Adjusted to the decline in the industry, fully transformed, with a neutral view of opportunities.
- **Economic Environment:** Perceived as declining.
- **Perception of the Industry:** Neutral.
- **Reason for decline:** Industry outlook.
- **Internal Factors Influencing Strategy:** High firm size, highly influential. Leadership capabilities.
- **External Factors Influencing Strategy:** Neutral. Slowing, transformation, slow decline, transformation.
- **Strategies:** Cost leadership, differentiation.
- **Differentiation:** Neutral.
- **Cost Leadership:** Neutral.
- **Growth Strategy:** Optimistic, slowing, transformation, slow decline, transformation.
- **Market Positioning:** Adapted to the declining industry, neutral.

### Case 6

**Industry:** Organic

- **Growth Strategy:** Adjusted to the decline in the industry, fully transformed, with a neutral view of opportunities.
- **Economic Environment:** Perceived as declining.
- **Perception of the Industry:** Neutral.
- **Reason for decline:** Industry outlook.
- **Internal Factors Influencing Strategy:** High firm size, highly influential. Leadership capabilities.
- **External Factors Influencing Strategy:** Neutral. Slowing, transformation, slow decline, transformation.
- **Strategies:** Cost leadership, differentiation.
- **Differentiation:** Neutral.
- **Cost Leadership:** Neutral.
- **Growth Strategy:** Optimistic, slowing, transformation, slow decline, transformation.
- **Market Positioning:** Adapted to the declining industry, neutral.

### Case 7

**Industry:** Strategic

- **Growth Strategy:** Adjusted to the decline in the industry, partially transformed, with a neutral view of opportunities.
- **Economic Environment:** Perceived as declining.
- **Perception of the Industry:** Neutral.
- **Reason for decline:** Industry outlook.
- **Internal Factors Influencing Strategy:** Highly influential. Leadership capabilities.
- **External Factors Influencing Strategy:** Influential. Market size, highly influential.
- **Strategies:** Cost leadership, differentiation.
- **Differentiation:** Neutral.
- **Cost Leadership:** Neutral.
- **Growth Strategy:** Optimistic, slowing, transformation, slow decline, transformation.
- **Market Positioning:** Adapted to the declining industry, neutral.

### Case 8

**Industry:** External

- **Growth Strategy:** Adjusted to the decline in the industry, transformed, with a neutral view of opportunities.
- **Economic Environment:** Perceived as declining.
- **Perception of the Industry:** Neutral.
- **Reason for decline:** Industry outlook.
- **Internal Factors Influencing Strategy:** Highly influential. Leadership capabilities.
- **External Factors Influencing Strategy:** Influential. Market size, highly influential.
- **Strategies:** Cost leadership, differentiation.
- **Differentiation:** Neutral.
- **Cost Leadership:** Neutral.
- **Growth Strategy:** Optimistic, slowing, transformation, slow decline, transformation.
- **Market Positioning:** Adapted to the declining industry, neutral.

### Case 9

**Industry:** External

- **Growth Strategy:** Adjusted to the decline in the industry, fully transformed, with a neutral view of opportunities.
- **Economic Environment:** Perceived as declining.
- **Perception of the Industry:** Neutral.
- **Reason for decline:** Industry outlook.
- **Internal Factors Influencing Strategy:** High firm size, highly influential. Leadership capabilities.
- **External Factors Influencing Strategy:** Neutral. Slowing, transformation, slow decline, transformation.
- **Strategies:** Cost leadership, differentiation.
- **Differentiation:** Neutral.
- **Cost Leadership:** Neutral.
- **Growth Strategy:** Optimistic, slowing, transformation, slow decline, transformation.
- **Market Positioning:** Adapted to the declining industry, neutral.
The key seems to be that the underlying cause for the demand has not changed, and that it is only the way in which the firm will cater for this demand that will change. Hence, if one defines the industry from the customer need, and not the product that the firm use to accommodate that need, it can be argued that from a manager’s perspective, the industry is transforming rather than dying out.

In order to take advantage of an industry revival or a transformation where the customer demand will take a different form, it appears that companies need to adopt a different strategy, such as the pursuit of growth, rather than one that ends with a complete withdrawal from the industry. The fact that eight of the respondents were positive about the future of their respective industries leads us next to examine what strategies they adopt as a result of this.

5.2 Generic Strategies

The Retail Fuel Industry

Both companies in the retail fuel industry have adapted their strategies to the industry decline. However, the way in which they have done so in terms of the generic strategies differ. One company mainly pursued cost leadership, while the other one mainly employed a differentiation strategy. Potential reasons for employing these different strategies can be found in Porter’s (1980) theory on the generic strategies. He states that cost leadership is reached through efficient facilities, tight control of fixed costs and avoidance of marginal customer accounts, which is almost identical with how the firm in Case 1 has pursued this strategy. Their CEO explained that they follow this strategy since a cost leadership position allows them to maximize profits, which can be invested into new opportunities. However, Porter (1980) advocates that this strategy cannot be pursued in isolation in order to be successful. Indeed, the company in Case 1 combined this strategy with differentiation activities related to marketing and investments in new equipment. When connected to declining industries, cost leadership can be related to Porter’s exit strategy termed leadership. Here, the firm seeks above-average profitability through aggressive pricing and marketing (Porter, 1980).

Differentiation is described by Porter (1980) as remaking a product or service into something that is unique within the industry. This is what the firm in Case 2 seeks to achieve by developing renewable fuel products and achieve competitive advantage by becoming the leading producer of those products. However, Hill (1988) argues that some contexts require the firm to pursue differentiation in combination with another strategy. In Case 2, this is evident through the viewpoint that the firm also pursues a low cost position as a result of the prevailing industry conditions. We see no exit strategy to which differentiation clearly can be related to. Arguably, it fits into the leadership strategy as the firm aims to achieve a leading industry position. However, the strategy pursued by the firm in Case 2 cannot be labeled as an exit strategy, but rather as a strategy to cope with the transforming industry.
The Printing Industry

All three operating firms from this industry pursued a differentiation strategy. The only firm that did not do this in relation to this industry was the paper wholesaler in Case 6, who is the key supplier of printing paper. The supplier has instead focused on being the cost leader in the Finnish market, by outsourcing most of its operations. The supplier was also the only company that did not pursue a growth strategy but simply sought to survive. The supplier has been affected more severely than the printing companies themselves due to the fact that overall demand of printing paper in Finland has declined by 60% in the past years. One explanation for why this supplier did not pursue a growth strategy could be that they are supplying a commodity, which is difficult to differentiate and hence may be more difficult to defend against a decline. Among the three companies operating directly in the printing industry, the trend on generic strategies seemed to be differentiation through added value, exceptional customer service, and specialization in emerging product and service areas. This was further acknowledged by the respondent in case 7, who argued that specialization plays an important role in firms’ efforts to adapt to the industry decline. In relation to this, both respondents in case 3 and case 5 mentioned that during the decline, they have reconstructed their sales organization to target solely profitable customers, a practice that is related to Porter’s (1980) overall cost leadership. Further, Hill (1988) stated that in situation where a low cost position in the market does not exist, firms are forced to pursue several strategies. For example, like cases 7 and 8 mentioned, it is difficult for the Finnish printing companies to pursue a low cost position against their international competitors due to the higher labor cost in Finland.

A Comparison Between the Industries

Hence, firms in the printing industry also sought to remake their services into something unique. However, there was one key difference between the differentiation strategies employed in the retail fuel industry and the printing industry. In the former industry, the firms sought to differentiate themselves by developing unique products and brands, while firms in the latter industry mainly sought to differentiate themselves through services. One possible reason for this is the level of technology involved in the products of the respective industries. While it can be difficult to make advancements in the development of fuel products, which requires highly sophisticated research and knowledge, the technology of printing products is more readily available to all firms within the industry. Hence, there are arguably higher potential gains in pursuing product development in the fuel industry, where the possession of a new production technique may provide a strong competitive position. However, it appears that since technology is widely available in the printing industry, firms seek to achieve competitive advantage by offering added value through service-related differentiation. According to our interviewees in the Finnish printing industry, this can for example be done by creating strong customer relationships by becoming a full service-provider through offering an extensive variety of printed and online products and services.
It is evident that firms in both of the studied interviews adapt and employ strategies that are in line with their perception of the industry’s development. For example, the respondents in cases 4 and 5 mention that they started to invest in strategic changes toward service customization and online solutions already before the early phases of the decline, which has given them competitive opportunities in the industry as it subsequently has transformed toward digitalization. This is supported in previous literature, which advocates that firms should adopt an adjusted strategy in a timely manner (Harrigan & Porter, 1983; Harrigan, 1980b). Further, the fact that all five firms have adapted their strategies to the industry decline is in line with previous literature, which argues for the need to adapt strategies to industry characteristics (Barbero et al., 2012; Parker & Helms, 1992; Porter, 1979).

Additionally, it is worth noting that none of the five firms in this study pursued a focus strategy. The firms which had an optimistic industry outlook were more inclined to take advantage of identified opportunities instead of shrinking their operations and focusing on a niche market, as suggested by Porter’s (1980) focus strategy and Harrigan and Porter’s (1983) niche strategy for declining industries.

5.3 Growth Strategies

All of the respondents believed that their respective industry would transform rather than die out. Hence, if they want to continue to operate in the industry it is natural that they seek to achieve growth. Indeed, not all firms were highly optimistic on their industry’s future and some firms, for example that in case 5, believed in continued decline in the near future. However, all respondents stated that they saw the industry as attractive and offering at least some profitable opportunities. This can be related to Porter and Harrigan (1983), who state that declining industries indeed may do so. As a result, they argue that some firms employ strategies that they only would embrace if the firm was growing. In addition, this can also be connected to Bamiatzi and Kirchmair (2014), who showed that firms can employ distinctive strategies in order to overcome an industry decline. Further, Barbero et al. (2012) assert that when pursuing a growth strategy, a firm must take advantage of its resources, capabilities and the external environment with the purpose of achieving competitive advantage. This is in line with what the respondents in this study perceived to be the key factors influencing strategy, which will be further discussed later.

Additionally, Martin and Eisenhardt (2004) suggest corporate entrepreneurship as an alternative approach to exit strategies. They argue that this process provides a means for corporations to transform and grow their business units. The problem with the suggested approach is that their study is based on a Fortune 500 company with a great access to resources and hence it might not be applicable to a vast majority of firms. While we acknowledge that the suggested approach provides a way for large multi-business corporations to cope with declining industries, we argue that corporate entrepreneurship relates more to organizational structure than strategy.
In the study, we sought to find out whether firms pursue growth in declining industries and which strategies they adopt. It can be interpreted through our study that firms indeed pursue growth strategies in declining industries: all five companies that operated directly in the studied industries pursued growth in some form, which clearly shows that existing theory on strategies in declining industries has neglected an important gap. Again, the fact that all studied firms pursue growth may be the result of survivorship bias. Nonetheless, it shows that the firms that remain in the studied industries do not simply employ end-game strategies and wait for the industry to die out, but that they instead actively pursue growth. It is not evident from the study whether one strategy is preferred over another. Instead, the investigated firms employed a wide variety of organic growth, M&A activities, and strategic alliances, which each will be analyzed separately.

**Organic Growth**

Both of the retail fuel companies invested heavily into organic growth by developing renewable products. Additionally, the company in case 1 invested in closely related industries such as energy production, where it has devoted much capital into developing a state of the art windmill farm. In accordance with theory on organic growth, this allows the firms to develop their knowledge internally rather than acquiring it (Mognetti, 2002). However, these types of investments are highly costly and are not available to firms with less access to capital. Hence, smaller firms may not have the same ability to pursue organic growth, especially declining industries where margins are low and much of the manager’s time is devoted to operational activities rather than strategic ones. This argument is supported in our study, where it was confirmed by several of the respondents, for example in case 9.

All of the firms in the printing industry also pursued organic growth in some extent. Whereas the company in case 5 devoted more emphasis to acquire new customers, the firms in cases 3 and 4 sought to grow by continuously investing in new equipment to reach higher efficiency, as well as to offer a wider variety of products and services. However, the main difference compared to the Swedish retail fuel industry was that they sought to achieve growth by investing in new technology and added value service in close collaboration with their equipment suppliers, rather than developing new products in large R&D departments, which was the case in the retail fuel industry.

**Mergers and Acquisitions**

As a response to the industry decline, the company in case 3 was a result of a consolidation merger of two companies in the Finnish printing industry. This action may be explained with the help of Scherer and Ross (1990), who argue that a consolidation may create opportunities for high profitability and growth in declining industries. The new company, which was formed approximately one year ago, consists of two firms that previously pursued growth by employing different growth strategies. One of them had grown organically through extensive product and service development by continuously
investing in new technology, whereas the other company had pursued growth by acquiring small, regional printing companies.

The company in case 4 has pursued growth by acquiring companies that threaten its operations in certain geographic areas. In terms of Porter’s (1980) end-game strategies in declining industries, this can again be related to the leadership strategy, where he states that this strategy can be employed by acquiring other firms in order to weaken competition. Hence, the end-game strategies seem to have some level of applicability in transforming industries as well, not least the leadership strategy. However, a key difference between our findings and Porter’s (1980) is that the latter does not include any growth strategies.

As mentioned earlier, mergers and acquisitions can be divided into two categories; asset redeployment and asset consolidation. Our results indicate that both types are pursued by firms in declining industries; however asset consolidation seems to be more common. The stronger prevalence of asset consolidation in declining industries can potentially be explained by Porter’s (1980) leadership strategy, as consolidation allows a firm to grow while simultaneously weakening the competition within the industry. This is also in line with Anand and Singh (1997), who found that consolidation strategies are well suited for declining industries. Moreover, since many of the respondents were optimistic about the industry’s future, it could be the case that they want to increase their firms’ market shares in order to get an advantage. However, it could also be the case that some of the studied firms lack the funds or capabilities needed to enter entirely new industries and that asset redeployment is not achievable. This could in turn be associated with firm size and how it affects firms’ strategies. However, whether this is the case or not is beyond the scope of this study.

It appears from the study that larger firms with a better access to capital has a stronger ability to attract new talent, knowledge, and technology. This would imply that they are better equipped to enter new industries. However, only the firm in case 4 has engaged in acquisitions in a completely new industry. This company operates in the printing industry and has recently acquired a company in the 3D printing industry. In addition to this, asset redeployment can also be argued to have been present to a further extent in the Finnish printing industry than the retail fuel industry, as the digitalization has transformed the way of doing marketing. Due to this global trend, some of the Finnish printing companies have acquired online marketing companies to offer wider varieties of products and supporting services combined with their printed products. However, it can be discussed whether this is a redeployment strategy and if online marketing is a completely new industry, again depending on whether one defines the industry from the customer need or the product that the firm uses to accommodate that need.

Strategic Alliances

All five firms have pursued different forms of strategic alliances, and several of the other firms mentioned that cooperation is a good way to achieve differentiation. From the
interviews it is clear that the Finnish printing industry has experienced fierce competition from international actors. As a response, the companies in case 3 and 4 have entered international markets through a joint venture, despite being main competitors in the domestic market. Hence, a strategic alliance with domestic competitors can be a way to grow by combining resources and jointly entering new geographic markets when the domestic one is declining. This is in line with Bernard and Dussauge (2000), who state that a company can enter a new market by creating an alliance with a domestic player. Further, the respondent in case 5 noted that it will be increasingly important in the future that companies understand that they do not have to produce all their products and services by themselves. Instead, he suggests that through building efficient and collaborative strategic alliances, companies can offer wider selections of products and services to their customers in order to grow and differentiate themselves from competitors.

It is worth mentioning that firms in both of the studied industries have entered into strategic alliances with firms in other industries. For example, the pressure to develop renewable fuel products in the retail fuel industry has naturally triggered the companies to look into renewable raw materials, which has led the companies in cases 1 and 2 to create alliances within the Swedish forest industry and food waste industry. From these, the companies have been able to develop diesel and ethanol products that are completely renewable. Hence, these alliances are not only an important way for them to achieve growth, but also to successfully transform their operations according to future industry regulations.

5.4 Key Factors Influencing Strategy

External Factors

From our interviews, it appears that external factors were influential on strategies in declining industries. The importance of external factors was highlighted by respondents from both of the studied industries. This is in line with Karnouchina et al. (2013), who state that industry effects will have strong impact on firms’ performances in later stages of the industry life cycle. Firms in the retail fuel industry emphasized the regulatory framework, environmental changes and customer demand as having the largest impact on their strategic direction. In the Finnish printing industry, the key external influences were fear of substituting products, new entrants, and fierce price competition. The discrepancy between the key factors in the two industries could imply that the forces influencing strategy in industries are industry-specific.

Porter’s (1979) five forces framework is outlining the major external influences on firm strategy. When applying this framework, we found a rather weak support for this theory. The threats outlined by the three firms in the Finnish printing industry are in line with two of the forces, namely threat of substitute products and new entrants. However, neither of the remaining firms in neither of the industries mentioned Porter’s forces as having an influence on their strategies. Hence, it seems like the five forces framework is
useful in explaining external pressures on firms, but its general applicability to all industries could be questioned since we could not find a clear support for it.

We found that it only was the respondents in cases 7, 8 and 9, who were not operating directly in the Finnish printing industry, who saw international competition as a highly influential external force. A reason for this could be their ability to perceive the industry from an outsider’s perspective. As international competitors have entered the Finnish market with efficient ecommerce solutions, prices have dropped and competition intensified. According to our findings, it could be difficult for Finnish printing companies to compete with prices against competitors from Poland and the Baltic region due to the higher labor costs in Finland. This could be seen as one of the main reasons why companies in the Finnish printing industry pursue differentiation strategies to add value around their relatively higher-cost products. In contrast to the printing industry, international competition was not mentioned by the two companies in the retail fuel industry. A possible reason for this could be that there is an existing network of gas stations in Sweden and that in order for international firms to enter the market they either need to acquire existing networks or build entirely new ones, which is costly. While the two respondents mentioned that international firms have entered the market and acquired existing networks of gas stations, this was not mentioned as an influential factor on the retail fuel firms’ strategies.

**Internal Factors**

According to our findings, the most influential internal factors on strategy seem to be the possession of innovation and leadership capabilities, highly skilled employees and having an entrepreneurial culture. Respondents in both of the studied industries mentioned resources and capabilities to cope with industry changes as highly important internal factors. The two respondents in the retail fuel industry emphasized technology while the respondents in cases 3, 4 and 5 from the printing industry emphasized highly skilled employees. This supports the resource-based view of the firm, which advocates the importance of having the right human capital within a firm to successfully pursue adopted strategies (Barney, 1991). In addition, it seems from our results that firm size is a strong firm-specific factor that influences strategies in declining industries. This supports existing theory, for example where Covin and Slevin (1989) and Bamiatzi and Kirchmaier (2014) argue that small firms are more vulnerable than larger firms to hostile environments. In our study, several of the respondents saw firm size as having an influential impact on their strategies. The firms in cases 4 and 5 considered their size as advantageous regardless if it was small or large, while the respondent in case 3 stated that it could prevent them from pursuing certain strategies. However, the importance of firm size was questioned by the respondent in case 1, who argued that firm size is a vague term and claimed that the most important thing is to not be bureaucratic. This could imply that firm specific factors, such as the capabilities to manage and share information, actually determine whether firm’s size has a positive or negative impact on firm performance in declining industries.
The respondent in case 9 suggests that smaller firms’ lack of capital leave them less equipped for coping with industry decline. This was further supported by the respondent in case 8, stating that small companies often have a lack of time and human resources to cope with the decline. Bamiatzi and Kirchmaier (2014) stated that large firms are better equipped to cope with price wars and declining demand, which supports this notion. It could be the case that as a large firm has more access to capital, it can also take a wider array of actions to cope with a decline and partake in more actions that involve risk-taking. The respondent in case 4 stated that their diverse operations enabled them to engage in risky and sometimes unprofitable projects in their pursuit for growth. This was further supported by one of the respondents in the retail fuel industry, who mentioned that having the right competence within the organization is key to be able to adapt to industry changes.

Our study suggests that smaller firms lack substantial capital strength and hence are inclined to avoid projects that involve significant risk, which may put them at a disadvantage in declining industries. The respondent in case 9 mentioned that the industry is characterized by small firms that are owned by aging entrepreneurs, who lack funds and are reluctant to invest in new equipment as long as they make even minimal profits. He saw this trend as a major problem for the industry since it results in an unhealthy competition by destroying mark-ups. This is in line with Kelley and Thibaut (1978), who state that companies’ strategies can be mutually destructive in industries characterized by scarce resources, such those which are declining.

_A Comparison Between the Factors That Influence Strategy_

Existing literature has emphasized internal factors’ influence on strategy. However, while our respondents viewed internal factors as important, they saw the external factors as those having the largest impact on strategy. Since the key factors identified differed both between and within the two industries, we find support for the notion that the perception of the influences on strategy is both related to the practitioner’s view and the industry characteristics. We also found support from the interviews that both internal and external factors impact strategy in declining industries. Our result is hence in line with O’Reagan et al. (2011), who argue that both a firm’s own resources and the external environment affect the formulation of firm strategy, and that the challenge for practitioners is to identify which factors that are the most influential within a specific industry. We argue that external factors have a stronger impact on strategy in declining industries, as the incumbent firms face severe external forces in declining industries. While we found no key factor to be generally applicable across industries, we found support to conclude that the factors are both industry and firm-specific.

To sum up, the main finding on the topic of which key factors that influence firm strategies is that external factors seem to be more influential than internal factors. This partly goes against and partly confirms existing theory, where internal factors have been a more popular explanation as a main driver of firm strategies and firm performance. We interpret from our study that external factors have a stronger influence on strategy, and
that internal factors such as having highly skilled employees, an entrepreneurial culture and a strong leadership culture are key to successfully pursuing those strategies. The entrepreneurial culture is supported by Martin and Eisenhardt (2004), who introduced corporate entrepreneurship as an alternative approach to end-game strategies.

Hence, our study supports existing theory in the sense that it appears to be the internal factors that are the main drivers of firm performance. The reason why our findings differ from existing theory, in the sense that they do not support that firm-specific, internal factors should be more influential on strategy adoption, could be that the main influencers on firm strategy varies depending on which phase of the life cycle the industry currently is in. For example, firms in an industry in the exploratory stage may have the opportunity to formulate a strategy according to its core capabilities, since the external environment is not settled yet in such an early stage of the industry life cycle. Conversely, the external factors appear to be strong in the later stages of the life cycle.

5.5 A Strategic Framework

As mentioned before, there was a strong consistency among the respondents to believe that their respective industries would transform rather than die out. Therefore, we argue that the strategies employed in the studied industries cannot be labeled as end-game strategies. It was also implied in our analysis that firms in declining industries adapt their strategies according to industry characteristics, rather than pursuing pre-determined strategies at all times. All of the studied firms tended to employ a strategy that was not only adapted to the current situation, but that also had the ability to transform according to how the industry would evolve in the future.

From our results, we recognize that the way in which the firms operate suggests a new strategic option, not previously outlined in literature on declining industries. It seems that if a firm aims to not only survive, but also to achieve growth in declining industries, it needs to develop a strategy that has the ability both to transform with environmental changes, and which acknowledges firm and industry-specific characteristics. This finding is in line with Harrigan (1980b), who argued that a firm should consider industry structure, demand characteristics, and both own and competitors’ characteristics when formulating a strategy. Further, the firm gains from implementing strategy at an early point during decline (Harrigan & Porter, 1983, Harrigan 1980b). Like Martin and Eisenhardt (2004), we acknowledge that there could be more options than merely exit of a declining industry. We therefore propose the foundation of a new strategic option in theory on declining industries, labeled transformational strategy. A transformational strategy is pursued through maximizing profits from the declining industry while subsequently investing those profits into new projects that the firm has identified as having growth opportunities. Hence, through a transformational strategy, we argue that the firm can adjust its business to an industry decline and simultaneously pursue growth, rather than simply employ end-game strategies.
Below, in figure 1 is a framework illustrating how the transformational strategy can provide a new strategic alternative to firms in declining industries and guide managers in their strategic decision-making. The model embraces Teece et al.’s (1997) argument that a timely response with respect to both internal and external factors is key to success, and hence advocates that a firm’s strategic course of action should be constantly re-evaluated in a timely manner. During this process, the firm evaluates its own situation and capabilities in the industry and assesses the factors that have the strongest influence on its strategy. The framework starts with a firm’s recognition of being in a declining industry and then progress into a three-step process: Evaluation, Assessment and Action. The three steps will be described below.

**Evaluation**

In the first phase, the company asks itself the question: *Are there new opportunities for growth that the firm can take advantage of?* Here, managers’ perception of the industry will be key, as different firms might perceive industries in various ways. It is not sufficient that the firm recognizes opportunities in the declining industry; it also needs to view them as attainable. The last part of the question hence aims to take the firm’s internal factors, such as assets and capabilities, into account when opting for a new strategy.

**Assessment**

In this phase, we integrate the knowledge we have gained from examining existing literature with our study on the internal and external factors that influence firm strategy in declining industries. To be successful, the firm needs to employ a strategy which adheres both to firm- and industry characteristics. Hence, in this stage the firm assesses both its own capabilities as well as the external factors that influence its strategy before opting for a strategic direction. The firm examines which strategy that will be best suited, taking the firm’s own characteristics and the characteristics of the environment into account. This process is made regardless if the firm saw attainable opportunities in the evaluation phase or not. Depending on how the firm perceives the influencing factors, and if it has recognized growth opportunities that it can take advantage of, it will opt for either a transformational strategy or an end-game strategy.

**Action**

In the action stage, the firm implements either an end-game strategy or a transformational strategy. The transformational strategy seeks to achieve success both in the short-term through continuous operations in the declining industry, while simultaneously preparing for the possibility of a future industry transformation. This strategy is pursued through maximizing profits from the declining industry in which the firm currently operates, while subsequently investing profits into new projects that the firm has identified as having growth opportunities.
A transformational strategy could take the form of any, or a combination, of the four growth strategies: organic growth, M&A, strategic alliances and hybrid modes of growth. After implementing a transformational strategy, the firm should in a timely manner re-evaluate its situation by asking the question in the beginning of the framework: *Are there new opportunities for growth that the firm can take advantage of?* By doing this, the firm can account for changes in the industry and continuously implement strategies that are suitable at the specific time and place. It will also ensure that the firm is constantly re-evaluating its strategies and seeking new ways to cope with decline.

According to the industry life cycle theory, the products within an industry will mature and subsequently become obsolete and go into decline as the industry ages. The framework in figure 1 incorporates this, as it can drive a need for development of a new strategic direction. Hence, if an industry enters into decline, the firm can go back to the beginning of the framework and re-evaluate the situation and subsequently pursue a new strategy that once again takes the new industry characteristics and the firm’s capabilities into consideration.

**Strategic framework for declining industries**
Lilja et al. (2015).

---

**Figure 1 – Strategic framework for declining industries**
6. Discussion

In this section, we discuss our findings and our study on a broader level.

We encountered several surprising discoveries during this study. Firstly, we did not expect to find that all respondents would consider their declining industries as being attractive and offer opportunities for growth. In addition, we were positively surprised over the amount of interest that the interviewed companies showed for our research. Some of the respondents in the Finnish printing industry appraised the timing of our study as it aligned with the current situation in their industry. This illustrates that practitioners are interested in how firms can operate successfully in declining industries. It also implies that our study is of relevance in today’s business world where most industries face the possibility of entering into decline.

6.1 Limitations of the study

First, since our empirical data is based on five firms from two different industries, it is probable that our findings cannot be applied to all declining industries or all types of firms. Further, our sample consists of companies from two relatively small countries; Finland and Sweden. Taking into consideration that these markets are relatively small compared to larger markets such as Germany or the US, it could be the case that our study is not applicable to larger markets.

Second, we recognize that our study may suffer from survivorship bias in the sense that the interviewed companies were all present in the declining industries and not one of the companies that have opted for exit. The Swedish retail fuel industry is a special example where we do not see a decrease in the number of participating firms. However, there has still been a change in the type of firms that compete in the market. Several of the old, global players that previously dominated the market have exited, and new, specialized firms have entered. Contrary, the Finnish printing industry, characterized by numerous firms, has experienced a significant drop in the number of firms since the beginning of the century. Should this study have been made on these industries fifteen years ago, our result may have differed. Hence, since all the studied firms have been shown to pursue growth, we have only managed to answer the first part of our first research question. Which strategies that firms who do not pursue growth employ could therefore not be covered in this study.

Third, considering that our research philosophy has been that of interpretivism, which seeks to make sense of unique situations in a constantly changing world (Saunders et al., 2009), it might not be possible to completely replicate our study. Even if the same companies would be studied again in some years, it is likely that the respondents’ perception have changed significantly enough to affect the outcome of the study. However, the same methodological approach can be used and replicate our literature review in order to provide an updated version of our study.
Fourth, time has been a major inhibitor of this study. In order to make an in-depth analysis of strategies in declining industries, one would need more time and resources to gather and analyze data, preferably from an industry that is not in decline when the study starts and subsequently progress into decline in order to avoid potential survivorship bias. Hence, we acknowledge that this study only can show indications of the type of strategies that firms employ in declining industries, and which types of factors that appear to influence the strategies firms employ.

6.2 Implications

We argue that our framework could act as a guiding tool for practitioners in declining industries, with which they can examine their strategic options as well as pursue strategies that suit their unique situations. Further, the finding that all five of the firms pursue growth despite facing a declining demand may inspire firms in other declining industries that yet do not pursue growth to do so. With guidance from our strategic framework, they will hopefully be able to do it with success as well.

Our study expands theory on strategies in declining industries by introducing a new strategic option for firms in declining industries. While still in its foundation, the addition of the transformational strategy to the field could prove to be helpful to scholars studying strategic management and declining industries. Our work also demonstrates to both academia and practitioners that declining industries can offer attractive investment and employment opportunities.
7. Conclusions and Suggestions for Future Research

In this study we have investigated whether firms pursue growth in declining industries, and which strategies firms employ. In addition to this, we sought to identify the key factors that influence strategies in declining industries. Our results clearly showed that firms do pursue growth in declining industries. Hence, this study has contributed to existing studies in the literature on declining industries. The study showed that rather than implementing end-game strategies, a majority of the studied companies continuously sought new ways to adjust their business strategies in order to achieve growth as the industry evolved, despite facing a decline. Further, all of the studied firms employed a strategy that was not only adapted to the current environment, but also had the ability to transform in accordance with the changing environment. Based on these results, we proposed a framework which suggests that companies can pursue growth in declining industries by employing what we labeled as transformational strategies. These strategies take into consideration the fact that declining industries may be transforming rather than die out, as well as the fact that strategies should be adapted both to firms’ and industries’ unique characteristics. A transformational strategy is pursued by maximizing profits from the declining industry in which the firm currently operates in, and subsequently investing those profits into new projects that the firm has identified as growth opportunities. Therefore, it is crucial for firms that pursue growth in declining industries to acquire the resources and knowledge needed to successfully employ these strategies. Additionally, this study has showed that the firms that do pursue growth in declining industries do it in a wide variety of ways of organic growth, mergers and acquisitions, and strategic alliances.

The study also indicated that the key factors influencing strategy in declining were both external and internal. However, external factors tended to be more prevalent on the studied firms. The key external factors identified in this study appeared to be industry specific. In the Finnish printing industry, the main external influences were the threat of substituting products and intense price competition. In the Swedish retail fuel industry, the regulatory framework and the political pressure appeared to be of major influence. While external factors appeared to be more influential, our results also showed a strong influence of internal factors on the adoption of strategies in declining industries. The key internal factors identified in this study were firm size, having an entrepreneurial and innovative culture, highly skilled employees as well as strong leadership capabilities.

Suggestions for Future Research

Since our work has focused on two industries in two relatively small countries, it can be seen as limited. Therefore, further research could test the validity and applicability of our guiding framework with a broader variety of industries and firms. Additionally, the field of strategies in declining industries is still sparsely researched. Future research within this field should aim to examine additional industries during longer periods of time in order to get an in-depth knowledge of how firms respond and act during industry decline. One suggestion is a longitudinal study of firms progressing over several years to account for
changes in managers’ perceptions and industry characteristics throughout the industry life cycle. This could also shed light on which strategies that non-growing firms in declining industries pursue, a question we have not been able to answer. Furthermore, in addition to studying how firms seek to achieve growth in declining industries, future research could seek to explain the motivation and the reasons why firms choose to stay and compete in declining industries.
References


Suggested Readings


Appendix 1

Financial growth data of the studied firms

<table>
<thead>
<tr>
<th>Sales</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Swedish Retail Fuel Industry</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Case 1 (TSEK)</td>
<td>2 010 991</td>
<td>2 469 697</td>
<td>2 878 194</td>
<td>3 303 777</td>
</tr>
<tr>
<td>Case 2 (TSEK)</td>
<td>77 626 000</td>
<td>91 963 000</td>
<td>105 536 000</td>
<td>79 814 000</td>
</tr>
<tr>
<td>Finnish Printing Industry</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Case 3 (T€)</td>
<td>15 578</td>
<td>22 000</td>
<td>32 792</td>
<td>33 772</td>
</tr>
<tr>
<td>Case 4 (T€)</td>
<td>20 865</td>
<td>21 366</td>
<td>21 305</td>
<td>21 791</td>
</tr>
<tr>
<td>Case 5 (T€)</td>
<td>6 147</td>
<td>6 648</td>
<td>7 571</td>
<td>6 771</td>
</tr>
<tr>
<td>Case 6* (T€)</td>
<td>53 244</td>
<td>55 858</td>
<td>50 515</td>
<td>40 708</td>
</tr>
<tr>
<td>Case 7* (T€)</td>
<td>89 217</td>
<td>90 983</td>
<td>87 067</td>
<td>88 782</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Annual Sales Growth</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>2011</td>
<td>2012</td>
<td>2013</td>
<td>Average Growth</td>
</tr>
<tr>
<td>Swedish Retail Fuel industry</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Case 1</td>
<td>22,81%</td>
<td>16,54%</td>
<td>14,79%</td>
<td>18,05%</td>
</tr>
<tr>
<td>Case 2</td>
<td>18,47%</td>
<td>14,76%</td>
<td>-24,37%</td>
<td>2,95%</td>
</tr>
<tr>
<td>Finnish Printing Industry</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Case 3</td>
<td>41,22%</td>
<td>49,05%</td>
<td>2,99%</td>
<td>31,09%</td>
</tr>
<tr>
<td>Case 4</td>
<td>2,40%</td>
<td>-0,29%</td>
<td>2,28%</td>
<td>1,47%</td>
</tr>
<tr>
<td>Case 5</td>
<td>8,15%</td>
<td>13,88%</td>
<td>-10,57%</td>
<td>3,82%</td>
</tr>
<tr>
<td>Case 6*</td>
<td>4,91%</td>
<td>-9,57%</td>
<td>-19,41%</td>
<td>-8,02%</td>
</tr>
<tr>
<td>Case 7*</td>
<td>1,98%</td>
<td>-4,30%</td>
<td>1,97%</td>
<td>-0,12%</td>
</tr>
</tbody>
</table>

Table 4: Financial growth data of the studied firms

Notes:

1) The business sector related to our studied industry in the cases 7 represent only part of the company’s total revenue.

2) The cases 8 and 9 are not applicable for this table.
3) The financial information has been collected from the studied firms’ public financial data.
Appendix 2

Interview Questions for Cases 1-5

Company and Respondent description

1. Please describe the company and what does it do?
2. What is your role and responsibilities in the company?

Industry Decline

3. What would you say is the reason or reasons for the industry decline?
4. How fast do you estimate the decline will occur?
5. How do you perceive the industry in the near future? Would you say it is attractive?
6. How do you perceive the industry in the long-run? How long will the decline last?
7. What is going to happen to the industry in the upcoming years as well as in the long run?

Strategies in General

8. What is your strategy? In terms of given dimensions what is your strategy? (Cost leadership, differentiation, focus)
9. If you do not follow one the given strategies, do you then follow many of them simultaneously?

Strategies in Declining Industries

10. If applicable: Have you adapted your strategy according to the decline in the industry?
11. Do you pursue growth despite the decline? If you do, how do you do it? (Organic Growth, M&A, Strategic Alliance)
12. If you do not pursue growth, what strategy have you adapted instead?
**Key Factors influencing strategy**

13. Do you perceive external factors, as influential on your strategy? If yes, what are the most important external factors?

14. How would describe the competition in the industry?

15. Do your competitors’ actions influence your chosen strategy? In what way?

16. Does the company’s size affect your strategy? If yes, how? (Large/small company)

17. Does the firm size affect your ability to cope with the decline? Do you see it as an advantage or disadvantage? If so, in what way?

18. Do you perceive internal factors, i.e. internal resources such as human and capital resources, as influential on your strategy? If yes, what are the most important internal factors?

19. What are your main capabilities? What are the strengths and weaknesses of your firm?

20. Is there anything on the topic of strategies in declining industries that we have missed? Is there anything that we have spoken about that you would like to expand?
Appendix 3

Interview Questions for Cases 6-9

*Company and Respondent description*

1. Please describe the company and what does it do?
2. What is your role and responsibilities in the company?

*Industry Decline*

3. What would you say is the reason or reasons for the industry decline?
4. How fast do you estimate the decline will occur?
5. How do you perceive the industry in the near future? Would you say it is attractive?
6. How do you perceive the industry in the long-run? How long will the decline last?
7. What is going to happen to the industry in the upcoming years as well as in the long run?

*Strategies in General*

8. In your opinion, what do you think is a preferable strategy in the industry? In terms of given dimensions what strategy should companies follow in the industry in order to be successful? (Cost leadership, differentiation, focus)

*Strategies in Declining Industries*

10. If applicable: Have companies adapted their strategies according to the decline in the industry?
11. Do companies pursue growth in the industry? If they do, how do they do it? (Organic Growth, M&A, Strategic Alliance)
12. If they do not pursue growth, what strategies have they adapted instead?
Key Factors influencing strategy

13. Do you perceive external factors, as influential on companies’ strategies in the industry? If yes, what are the most important external factors?

14. How would describe the competition in the industry?

15. In your opinion, are companies’ chosen strategies in the industry influenced by their competitors’ actions? In what way?

16. Does the company’s size affect its strategy? If yes, how? (Large/small company)

17. Do you think that company’s size affect its ability to cope with the decline? Do find a certain size as an advantage or disadvantage? If so, in what way?

18. Do you perceive internal factors, i.e. internal resources such as human and capital resources, as influential on company’s strategy in the industry? If yes, what are the most important internal factors?

20. Is there anything on the topic of strategies in declining industries that we have missed? Is there anything that we have spoken about that you would like to expand?