

Forest SME entrepreneurs: Toward a Higher-Performance Business Model?

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Outline

- Business environment and Methods
- Identify factors that could be associated with better performance
- Are SMEs with diversified activities setting up for a new business model?
 - And is this new model yields better performance for the SME?





Some contractors can recall this era.



Canadian technology of the 1970's.



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The **employee** and his machine.



The support crew.

A paradigm shift.



The **entrepreneur** and his machines.



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Some more context

- Logging is still under the influence of large clients
- Emergence of forest entrepreneurs is the result of a strategic choice on the part of the forest product companies to focus on their core competencies
- SME dependency on one or a few clients ultimately attenuates the entrepreneurial behaviors of business managers (Riskier 1998, Holmlund and Kock 1996)
- FP economy: bad!

From bad to worst !



Photo: Marc-Antoine Allard

Forest SME and performance

- We've observed two categories of SMEs
 - Small & focused and large & diversified
- Research questions :
 - Does size influence performance ?
 - What is the relationship between business strategy and performance ?
 - Is a new, high performing business model starting to emerge ?

Methodology

- Mail survey to ± 2500 forest entrepreneurs (population)
 - 717 entrepreneurs completed the survey
 - 1 reminder card, 1 follow up
- Business size
 - median number of employees : ≤ 3 , ≥ 4
- Performance (index)
 - Chg in margin 5 yrs and Chg profits prev. year

Results

- **SMEs** (4+) show more improvement in financial performance than **VSEs** (3-) (sig. = 0.001)
- SMEs use more methods to measure performance

Number of Methods Used According to Size			
	VSE (≤ 3)	SME (≥ 4)	t-Test
Number of methods used to measure performance	M = 2.30	M = 3.28	p < 0.001

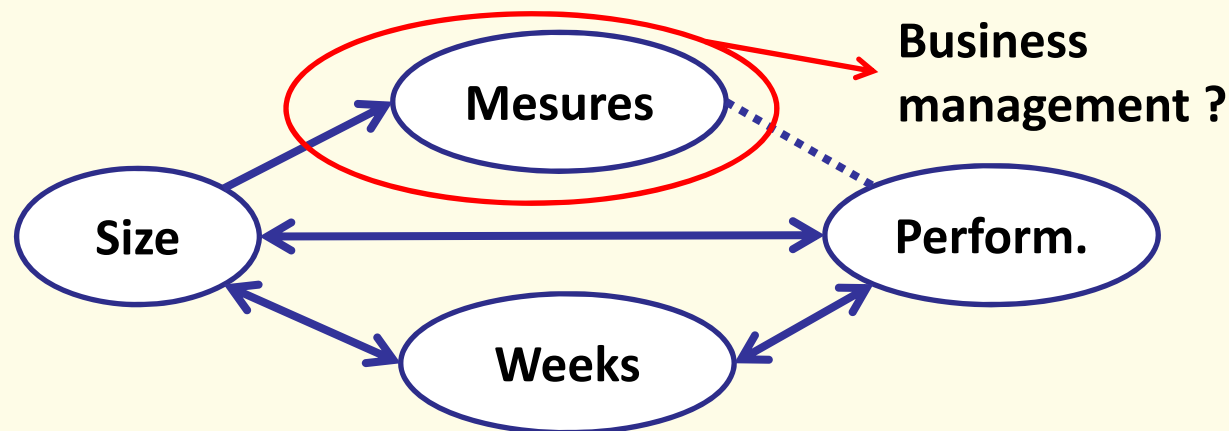
Results

Differences in Use of Performance Measurement Tools According to Size

Performance Measure Used		VSE (≤ 3)	SME (≥ 4)	Total	Test χ^2
Balance sheets or financial statements	Yes	69,1%	76,6%	73,1%	p = 0,100
	No	30,9%	23,4%	26,9%	
Number of trips completed	Yes	25,8%	42,6%	34,7%	p = 0,001
	No	74,2%	57,4%	65,3%	
Equipment utilisation rate	Yes	25,3%	42,6%	34,4%	p = 0,000
	No	74,7%	57,4%	65,6%	
Number of trees cut	Yes	32,0%	44,2%	38,4%	p = 0,016
	No	68,0%	55,8%	61,6%	
Primary contractor's statements/log	Yes	19,1%	27,9%	23,7%	p = 0,045
	No	80,9%	72,1%	76,3%	
Use of an onboard computer (black box)	Yes	8,4%	29,4%	19,5%	p = 0,000
	No	91,6%	70,6%	80,5%	
All activity entered in computers	Yes	6,2%	12,2%	9,3%	p = 0,046
	No	93,8%	87,8%	90,7%	

Results

- Number of measurement methods and performance improvement is not significant
- The more weeks a logging business works in a year, the more it improves its performance



Results

- Relationship between «business management » and size

Importance Given to Certain Tasks According to Size			
Management Tasks	VSE (≤ 3)	SME (≥ 4)	Test t
Management and administration	2,54	2,92	0,000***
Planning logging operations	3,34	3,88	0,000***
Operating logging equipment	4,65	3,65	0,000***
Mechanics and equipment maintenance	3,77	3,88	0,250

* = $p \leq 0,05$ ** = $p \leq 0,01$ *** = $p \leq 0,001$

Results

- What impact has size on strategic intention ?
 - Not that much...

Strategic Intention		VSE	SME	Total	Test χ^2
Grow within the forestry sector	Yes	12,0%	16,0%	12,8%	p = 0,194
	No	88,0%	84,0%	87,2%	
Diversify outside the forest	Yes	23,1%	30,9%	24,6%	p = 0,077
	No	76,9%	69,1%	75,4%	
Close down the business and sell off assets	Yes	26,8%	12,8%	24,2%	p = 0,002
	No	73,2%	87,2%	75,8%	
Reduce the size of the business	Yes	10,8%	24,5%	13,4%	p = 0,001
	No	89,2%	75,5%	86,6%	
Train a candidate to take over the business	Yes	19,2%	24,5%	20,2%	p = 0,248
	No	80,8%	75,5%	79,8%	

Results

- What impact has size on strategic intention ?

Strategic Intention		VSE	Larger ones want to reduce size		
Smaller ones want to close or sell	Yes	12,0%			
	No	88,0%	84,0%	81,2%	0,194
Diversity outside the forest	Yes	23,1%	30,9%	24,6%	p = 0,077
	No	76,9%	69,1%	75,4%	
Close down the business and sell off assets	Yes	26,8%	12,8%	24,2%	p = 0,002
	No	73,2%	87,2%	75,8%	
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Results

- What's the effect of performance on strategic intentions ? ...quite important

Strategic Intention		Performance Improvement Index						Test Tau
		2	3	4	5	6	Total	
Grow within the forestry sector	Yes	6,4%	9,2%	13,0%	32,5%	36,8%	12,4%	0,000
	No	93,6%	90,8%	87,0%	67,5%	63,2%	87,6%	
Diversify outside the forest	Yes	27,1%	23,7%	24,2%	20,0%	26,3%	25,0%	0,890
	No	72,9%	76,3%	75,8%	80,0%	73,7%	75,0%	
Close down the business and sell off assets	Yes	38,8%	19,7%	14,9%	5,0%	5,3%	23,8%	0,000
	No	61,2%	80,3%	85,1%	95,0%	94,7%	76,2%	
Reduce the size of the business	Yes	18,6%	10,5%	10,6%	5,0%	5,3%	13,0%	0,045
	No	81,4%	89,5%	89,4%	95,0%	94,7%	87,0%	
Train a candidate to take over the business	Yes	12,2%	23,7%	23,6%	25,0%	52,6%	20,5%	0,000
	No	87,8%	76,3%	76,4%	75,0%	47,4%	79,5%	

Results

- What's the effect of performance on strategic intentions ?

Strategic Intention		Performance Index					Total	Test Tau
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Best performers want to grow

... and train a candidate to buy-in

Results

- What's the effect of performance on strategic intentions ?

Strategic Intention		Performance						Movement
		1	2	3	4	5	6	
Grow within the forestry sector	Yes	6,4%	9,2%	13,0%	32,5%	50,0%	53,8%	0,000
	No	93,6%	90,8%	87,0%	67,5%	63,2%	87,6%	
Diversify outside the forest	Yes	27,1%	23,7%	24,2%	20,0%	26,3%	25,0%	0,890
	No	72,9%	76,3%	75,8%	80,0%	73,7%	75,0%	
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	No	87,8%	76,3%	76,4%	75,0%	47,4%	79,5%	

Low performers seek to close down

... and to reduce operations.

Discussion

- Performance measures are indicative of « professionalism » that comes with business size
- Performance shapes future strategic choices
- Number of weeks worked is key to explain performance

Discussion and conclusion

- Unresolved questions...
 - Why do some entrepreneurs have more work ?
 - Luck, competencies or better business relations with clients ?
- Can't single out one « business model » at this time
- Yet, it appears necessary to improve performance measurements and explore other factors

Who's got the best job ? ¹⁾



¹⁾ Inspired by Eric Johnson, editor of the « Northern Logger » (February 2009)

Source: Wall Street Journal (6-02-09)

In Québec, dentists have it the best (!).

According to a «Jobboom» survey (2008)



THE DENTIST - 1622 , GERRIT VAN HONTHORST

The « jobboom » criteria

- Professionnal development ,
- autonomy,
- salary,
- making decisions,
- being part of a team,
- a flexible schedule.

So what is there to like for FMOs ?

- It's stimulating (88%)
 - I get to use my aptitudes (99%),
 - It's requires teamwork (91%),
 - Business management (83%)
- The traditional image of the « logger » does not fit today's FMO environment.
 - Maybe it's the business side that must be emphasized more.



Photo : Skogforsk

Time to stop !



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