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# Industry forces, competitive and functional strategies and organizational performance: Evidence from restaurants in Istanbul, Turkey

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## Abstract

Each of industry forces, competitive and functional strategies and organizational performance has been subject to so many studies presented in literature. However, there is a lack of combination of all and consensus on the role of each in restaurant businesses. Thus, this study examines the relationships among industry forces, competitive and functional strategies and organizational performance within the context of “well-known branded” restaurants in Turkish hospitality industry. The study employs a questionnaire that evaluates the attitudes of restaurants of those themes in Istanbul, Turkey without any sampling procedure. Results indicate that competitive strategy of cost leadership is significantly related to bargaining power of suppliers. Functional strategy regarding the brand image relates significantly to the competitive strategy of differentiation. Organizational performance is in a significant relation with functional strategies of human resources and information technologies.

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*Keywords:* Industry forces, Competitive strategy, Functional strategy, Organizational performance

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## 1. Introduction

Several studies have examined the central role that each of industry forces, competitive strategy, functional strategy and organizational performance plays in the success of businesses separately. However, the combination of all and consensus on the role of each in restaurant businesses remain unexamined. Thus, this study is designed to present the relationships among industry forces (i.e., intensity of rivalry, bargaining power of buyers and suppliers and threat of new entrants), competitive (i.e. cost leadership and differentiation strategy) and some functional strategies (i.e. brand

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image, human resources and information technology strategy) and organizational performance within the context of “branded” restaurants in Turkish hospitality industry. Thus, to better understand those relationships, we posed three specific research questions:

Research Question 1: What is the relationship between industry forces and competitive strategies?

Research Question 2: What is the relationship between competitive strategies and functional strategies?

Research Question 3: What is the relationship between functional strategies and organizational performance?

To address these questions, we analyze the relevant literature, develop a model and use statistical technics to test the relationships among the variables mentioned above. Although the previous studies shed some light into the relationship between those variables, their relationships were not examined in particularly highly competitive service industry settings. This study also contributes the literature by getting done in a developing country from a different perspective.

## **2. Literature Review And Hypotheses**

### *2.1. Industry Forces*

Several studies have examined the central role of a business' position compared to its competitors in an industry, which plays in terms of organizational success with a focus on a business' external conditions and five forces named as the threat of new entrants, bargaining power of buyers, bargaining power of sellers, threat of substitute products and services and intensity of rivalry among existing firms (Porter, 1979). In his five forces model, Porter (1979) helps businesses evaluate their industry as a whole in any cluster, forecast the industry's growth and conceptualize their positions compared to one another. Thus, awareness of the five forces can help a company understand the structure of its industry and stake out a position that is more profitable and less vulnerable to attack (Porter, 2008). Following the evaluation, a business should implement a competitive strategy, in other words, position itself in a favorable manner or at least to protect its situation in order to succeed particularly in a hostile environment with a deep consideration at the threat of available and new entrant competitors, product substitutes, and bargaining power of suppliers and customers (Porter, 1980; Güngören and Orhan, 2001).

Each one of Porter's competitive forces is amenable to stakeholder agenda analysis in one form or another. The propellers are drawn again in proportion to the relative strength of the agenda. These agendas can be potentially elicited by asking the stakeholder involved but in practice, those agendas may need to be inferred directly from their behavior or indirectly from general industry knowledge (Grundy, 2001).

#### *2.1.1. Threat of New Entrants*

The threat that new competitors may enter an industry is affected by some barriers to entry. When barriers to entry are low, excessive profits will quickly attract new competitors, and price competition will become more intended (Niederhut-Bollmann and Theuvsen, 2008). Thus, the threat of new entrants largely depends the reactions of available competitors and entry barriers, which may be named as economies of scale, product differentiation, initial capital requirements, access to distribution channels, cost disadvantages and governmental policies (Porter, 1980; Ülgen and Mirze, 2010).

#### *2.1.2. Bargaining Power of Buyers*

Powerful customers -the flipside of powerful of suppliers- can capture more value by forcing down prices, demanding better quality or more service and generally playing industry participants off against one another, all at the expense of industry profitability. Buyers are powerful if they have negotiating leverage relative to industry participants, especially if they are price sensitive, using their clout primarily to pressure price reductions (Porter, 2008).

When buyers are powerful, they set prices and limit the supplying industry's profitability. Buyers are powerful when they are concentrated, possess credible backward integration options, purchase a significant portion of the

supplier's output or can easily and cheaply switch to other suppliers or substitutes (Niederhut-Bollmann and Theuvsen, 2008)

### 2.1.3. *Bargaining Power of Suppliers*

Powerful suppliers capture more of the value for themselves by charging higher prices, limiting quality or services, or shifting costs to industry participants. Powerful suppliers, including suppliers of labor, can squeeze profitability out of an industry that is unable to pass on cost increases in its own prices. Microsoft, for instance, has contributed to the erosion of profitability among personal computer makers by raising prices on operating systems PC makers, competing fiercely for customers who can easily switch among them, have limited freedom to raise their prices accordingly (Porter, 2008).

Powerful suppliers can reduce the profitability in an industry, which cannot bear an increase in any cost. However, power of any important supplier in any industry is largely dependent on that industry's features and its relative amount of sales to total amount of sales in that industry (Güngören and Orhan, 2001)

### 2.1.4. *Threat of Substitute Products or Services*

A substitute performs the same or a similar function as an industry's product by a different means. For instance, video conferencing is a substitute for travel whereas plastic is a substitute for aluminum. Sometimes, the threat of substitution is downstream or indirect, when a substitute replaces a buyer industry's product (Porter, 2008).

A threat of substitutes exists when price changes in other industries influence product demand in the industry being analyzed. Close substitutes generally restrict a firm's ability to raise prices and thus limit profitability (Niederhut-Bollmann and Theuvsen, 2008).

### 2.1.5. *Intensity of Rivalry among Existing Firms*

In Porter's work, analyzing an industry in terms of the five competitive forces would help the firm identify its strengths and weaknesses relative to the actual state of competition. Porter's main argument to support his idea is that if the firm knows the effect of each competitive force, it can take defensive or offensive actions in order to place itself in a suitable position against the pressure exerted by these five forces. Although the first consideration for a firm is to place itself against the competitive forces in a "defendable" position, Porter thinks that firms can affect the competitive forces by their own actions. This view of competition holds that not only the existing firms in the industry are actual or potential competitors. Additional competitors may arise from what Porter calls "extended rivalry"—customers, suppliers, substitutes, and potential new entrants (Ormanidhi and Siringa, 2008)

Rivalry among existing competitors takes many familiar forms, including price discounting, new product introductions, advertising campaigns, and service improvements. High rivalry limits the profitability of an industry. The degree to which rivalry drives down an industry's profit potential depends, first, on the rivalry among existing competitors. Intensity with which companies compete and, second, on the basis on which they compete (Porter, 2008).

The business should identify its position in the market area and fight against the competition that threatens its strategic position before formulating firm strategies, which industry forces have a major impact on (Tavitiyaman, Qu and Zhang, 2011; Covin and Slevin, 1990)

The objective in setting a competitive strategy is to seek a position in which competitive forces do the firm the most good or cause it the least harm. To overcome these competitive forces and succeed in the long term, management can select from several competitive strategies: cost leadership, differentiation (Najib and Kiminami, 2011).

Thus, we believe that

*H1: Industry forces are in relation with competitive strategies.*

## 2.2. Competition Strategy

Porter's (1980) basic framework suggests that a business can address uncertainty and achieve superior performance by either establishing a cost leadership position or differentiating its offerings from those of its competitors. Either cost leadership or differentiation can be accompanied by focusing efforts on a given market niche. Porter proposed that a business attempting to combine both concepts would find itself "stuck in the middle" (Porter, 1980). Other scholars have noted that some businesses can successfully integrate the two strategies and create synergies that eliminate the trade-offs associated with the combination of the two ideas (Spillan et al., 2012; Spanos and Lioukas, 2001).

Porter's framework for competitive strategy is one of the most widely accepted business planning models. Porter argues that to succeed in business, a firm needs to adopt one or more of three generic competitive strategies—cost leadership, differentiation, or market focus—and that the firm's strategic choice ultimately determines its profitability and competitiveness. With a cost-based strategy, a firm can improve its competitive stance by lowering its production and marketing costs. A lower cost structure can improve profitability and market share. On the other hand, a firm may pursue a strategic advantage by differentiating its products and services from those offered by competitors. By providing unique and innovative products and services with creative marketing, a firm can create and nurture strong brand recognition and customer loyalty. Finally, a company may obtain a strategic advantage by choosing to become specialized in focusing on a market niche instead of competing broadly in the market (Mo Koo, Koh, and Nam, 2004).

According to Porter, there are three generic strategies for competing in any given industry. To be successful, a firm must decide how to position itself in a competitive market. The three generic strategies are determined by two factors, identified as competitive advantage and competitive scope. He proposed generic strategies that enable a firm to develop a competitive advantage and create a defensible position. The following sections briefly describe these generic strategies (Hsieh and Chen, 2011).

However, it is not sufficient alone to create a competitive advantage; it should be sustainable one. A powerful medium of a sustainable competitive advantage is competitive strategy that a business employs (Mirze and Ülgen, 2010).

### 2.2.1. Cost Leadership Strategy

Cost leadership strategy is a positioning strategy to create a competitive advantage based on production of goods and services with much less costs compared to rivals (Akbolat and Işık, 2012).

The overall cost leadership strategy attempts to increase market share by emphasizing low cost relative to competitors. Generally, a low cost leadership strategy is most viable for larger firms capable of taking advantage of economies of scale, greater access to resources and lower overhead resulting in overall lower per-unit cost (Miller, Dess, 1993; Mo Koo, Koh and Nam, 2004).

Cost leadership strategy was defined as a strategy of seeking competitive advantage by becoming the lowest cost producer for its target market. Differentiation strategy was defined as a strategy of seeking competitive advantage by distinguishing oneself from the competition through product offerings or marketing programs (Najib and Kiminami, 2011).

### 2.2.2. Differentiation Strategy

The differentiation strategy must typically be supported by heavy investment in research, product or service design, and marketing. Firms trying to implement Porter's differentiation strategy have used many different bases, such as differentiating by types of technology, or the quality of customer services offered. A differentiation strategy is associated with dynamic and uncertain environment. Differentiation often involves new technologies, and unforeseen customer or competitor reactions. In this case, the management control system must emphasize flexibility and focus on long-term operations. The corresponding human resource strategy should enhance employees' adaptability and innovation to match the differentiation strategy (Hsieh and Chen, 2011).

It will be useful, at the outset, to acquaint the reader with Porter's (1980) three generic strategies. The strategy of differentiation aims at creating a product or service that is somehow unique. This can be done through design or brand image (Rolls Royce automobiles), technology (Polaroid cameras), customer service, or other attractive features. Many firms differentiate themselves along several dimensions — for example, by offering high quality and innovative products. The basic aim of differentiation is to create brand loyalty, and thus price inelasticity, on the part of buyers. This can erect competitive barriers to entry, provide higher sales margins, and mitigate the power of buyers who lack acceptable substitute products. The differentiation strategy must typically be backed up with costly activities such as extensive research, product design, and marketing expenditures. Porter (1980) believes that this will usually prevent differentiators from being low cost producers (Miller and Friesen, 1986).

The correlation between competitive strategy and business performance has been established by much research (Najib and Kiminami, 2011).

Chathoth and Olsen (2007) found significant relationships among environment, strategy, structure, and performance in the restaurant business. Olsen et al. (2008) studied the co-alignment of relationships among environmental events, strategy choice, firm structure, and performance in the hospitality industry. The notion of these researches is that external and internal factors create the best value of competitive strategy over time in order to succeed high performance (Tavitiyaman, Qu and Zhang, 2011).

Thus, we believe

*H2: Competitive strategies are related to functional strategies.*

### 2.3. Functional Strategy

A functional strategy consists of decisions of each department in a business, such as marketing, production, finance, human resources, which are largely associated with the effective use of resources to meet the objectives. It is also important at this level to create a competitive advantage and synergy.

#### 2.3.1. Brand Image Strategy

A brand can acquire cultural meaning in a multitude of ways: the kinds of users typically associated with it, its employees or chief executive officer, its product-related attributes, packaging details, product category associations, brand name, symbol, advertising message and style, price, distribution channel, and so forth (Batra and Homer, 2004). Branding also ensures consumers of consistency in the quality of the product and consequently allows marketers to maneuver with a greater level of pricing freedom (Naidoo and Ramseook, 2012).

Having a strong brand enables hotels to distinguish its offerings from the competition, create customer loyalty in performance, exert greater control over promotion and distribution of the brand, and command a premium price over the competitors (Tavitiyaman, Qu and Zhang, 2011).

#### 2.3.2. Human Resource Strategy

Human resources strategies should support the organization to reach its competitive goals by recruiting, training and retaining the employees that have the essential ability and motivation consistent with the strategy of the organization. Differentiation and cost leadership strategies are thought to require different HR practices and policies in order to elicit particular sets of employee attitudes and behaviors to foster success. Different human resource practices are needed to support different competitive strategies (Bal, 2010).

The achievement of human resource management practices can increase competitive advantage and provide a direct and economically significant contribution to organization performance (Kim and Oh, 2004; Wang and Shyu, 2008; Tavitiyaman, Qu and Zhang, 2011)

Human resource development makes a difference in high performance, and may even be more critical in the hospitality industry (Crook et al., 2003). The attitudes and actions of employees affect the success of a hotel service encounter. In the other words, hospitality industry's employees are the main factors driving the differentiating services to customers, which lead to superior performance (Bowen and Chen, 2001). Furthermore, Wong and Kwan (2001) found the relationship between human resource development and hospitality industry performance (Tavitiyaman, Qu and Zhang, 2011)

### 2.3.3. *Information Technology Strategy*

Information technology is changing the way companies operate. It is affecting the entire process by which companies create their products. Furthermore, it is reshaping the product itself: The entire package of physical goods, service and information companies provide to create value for their buyers. Linkages not only connect value activities inside a company but also create interdependencies between its value chain and those of its suppliers and channels. A company can create competitive advantage by optimizing or coordinating these links to the outside (Porter and Millar, 1985).

IT can be used to manage market complexity as a deliberate strategy to gain competitive advantage (Crichton and Edgar, 1995, Tavitiyaman, Qu and Zhang, 2011)

In hospitality businesses, technological emphasis should rest on the way services are produced and delivered. It would be incorrect, however, to assume that manufacturing technologies do not apply to the hospitality industry. Current technology has made it much less expensive to implement a wide range of service procedures. Rather than use file cards (as occurred in an earlier day), hotels can maintain customer profiles on computer. Ritz-Carlton, for instance, tracks the tastes and preferences of its regular visitors. Ritz-Carlton properties use their guest database to good advantage by arranging for express check-in for regular guests, who need only to call and say when they plan to arrive (Harrison, 2003).

Gursoy and Swanger (2007) explored the influence of research and development capabilities (sales, research and development distribution, customer services, marketing, human resources, accounting, and IT) on financial success in hospitality firms. The results showed that these capabilities have a positive influence on financial performance. The hospitality operators can niche to these factors to enhance financial success.

Thus, we believe that

*H3: Functional strategies are in relation with organizational performance.*

## 2.4. *Organizational Performance*

Organizational performance is a multifaceted concept. Given that this, we make a distinction between two indicators of organizational performance: Operational outcomes (such as productivity and quality) and financial outcomes (such as returns on invested capital and shareholder return). Financial performance is further from operational performance, and is potentially subject to additional intervening factors.

## 3. **Methodology**

### 3.1. *Research Goal and Scope*

It is aimed in this study to present the relationship between industry forces, competitive and functional strategies and organizational performance hypothesized above at "branded" restaurants in Istanbul, Turkey. In this respect, the relevant literature is reviewed and a scale is developed to test these hypotheses. The developed scale has been sent to all operating "branded" restaurants (N = 100 as of February, 10th, 2014) in Istanbul, the biggest city in Turkey with a population of approximately 15 million. Those 100 "branded" restaurants have been contacted via email or phone and offered the opportunity to participate in the survey, 82 of which responded with their data, yielding a response rate of

82,0 % (= 82 / 100). Those completing the survey comprised of high level management and administrators within the restaurants. These people were selected because of their familiarity with strategic management, marketing and communication within their organizations.

### 3.2. The Scale

The hypothesized measurement model is shown below in Figure 1. The data is obtained through a developed questionnaire with subsections of industry forces (Najib and Kiminami, 2011; Ulgen and Mirze, 2010), competitive strategy (Najib and Kiminami, 2011), functional strategy (Tavitiyaman, Qu and Zhang, 2011) and organizational performance (Najib and Kiminami, 2011) with 5-point Likert scales and demographic information regarding both the respondent and the participant “branded” restaurants. The gathered data from the questionnaires is analyzed through a factor analysis of principal component extraction method with a Varimax-rotation in SPSS 21.0, yielding 4 items for intensity of rivalry, 4 items for threat of new entrants, 5 items for bargaining power of buyers, 4 items for bargaining power of suppliers, 3 items for cost leadership strategy, 6 items for differentiation strategy, 3 items for brand image strategy, 3 items for human resources strategy, 3 items for information technology strategy and 5 items for organizational performance with factor loadings over 0.40 as in Table 1 as coded 5: “Definitely Agree” and 1: “Definitely Disagree”.

Table 1. Results of factor analysis for constructs used in the questionnaire.

Construct	N. of Items	Total Variance Explained (%)	Cronbach's Alpha
Intensity of Rivalry	4	41,45	,522
Threat of New Entrants	4	35,90	,375*
Bargaining Power of Buyers	5	35,75	,480*
Bargaining Power of Suppliers	4	46,92	,619
Cost Leadership Strategy	3	44,53	,582
Differentiation Strategy	6	54,58	,831
Brand Image Strategy	3	53,51	,679
Human Resources Strategy	3	53,36	,500
Information Technology Strategy	3	68,58	,768
Organizational Performance	5	56,19	,798

\* Those constructs have been discarded because their Cronbach's Alpha values are below 0.50<sup>c</sup>

### 3.3. The Model

The research is based on an explanatory-model to present the relationships among those constructs with above-developed hypotheses as in Figure 1.

### 3.4. Analysis

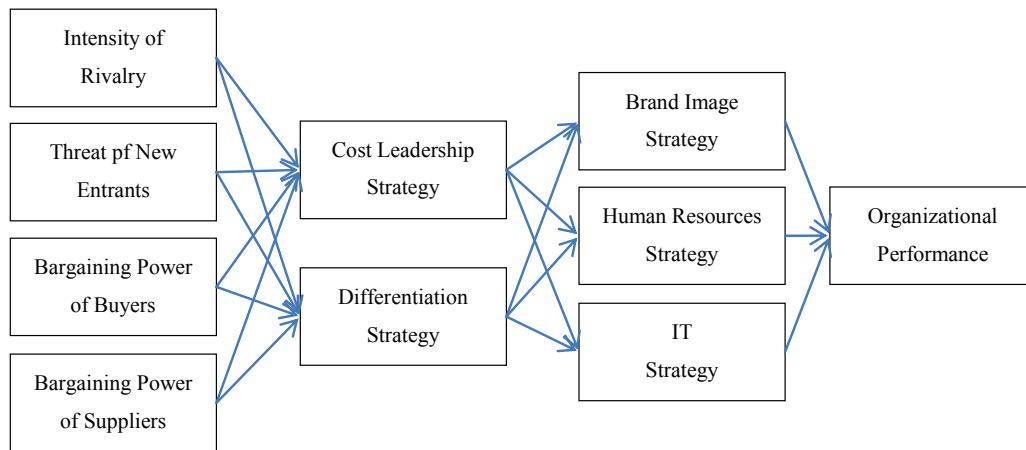
Having established the reliability, the next step is to test the hypotheses. Thus, a Pearson correlation analysis has been conducted to present the proposed relationships among the constructs of intensity of rivalry, bargaining power of suppliers, cost leadership strategy, differentiation strategy, brand image strategy, human resources strategy, information technology strategy and organizational performance leaving the constructs of threat of new entrants and bargaining power of buyers aside.

It should be noted that Pearson correlation coefficient should be regarded as “weak” when it is between 0,10 and 0,29; as “moderate” when it is between 0,30 and 0,49 and as “strong” when it is above 0,50 (Cohen, 1988).

<sup>c</sup> George and Mallery (2003) regards constructs as ‘unacceptable’ if Cronbach's Alpha value is lower than 0,50.



Figure 1. The Model



#### 4. Results and Discussion

Pearson correlation analysis reveals that cost leadership strategy is significant and strong positive relation in bargaining power of buyers ( $R = 0,56$ ;  $P < 0,05$ ). It also reflects that brand image strategy relates strongly and positively to differentiation strategy ( $R = 0,54$ ;  $P < 0,05$ ) as does organizational performance to human resources strategy ( $R = 0,77$ ;  $P < 0,05$ ) and information technology strategy ( $R = 0,83$ ;  $P < 0,05$ ).

Table 2. Correlations and descriptive statistics of study variables.

No.	Construct	Mean	Std. Dev.	1	2	3	4	5	6	7	8
1	Intensity of Rivalry	3,83	0,69	1,00							
2	Bargaining Power of Suppliers	3,18	0,83	0,07	1,00						
3	Cost Leadership Strategy	2,64	0,99	-0,14	0,56**	1,00					
4	Differentiation Strategy	4,41	0,59	0,21	0,13	0,18	1,00				
5	Brand Image Strategy	4,39	0,54	0,16	0,15	0,07	0,54**	1,00			
6	Human Resources Strategy	3,81	0,86	0,35**	0,04	-0,09	0,06	0,03	1,00		
7	Information Technology Strategy	3,47	1,18	0,39**	-0,10	-0,23	-0,02	-0,07	0,77**	1,00	
8	Organizational Performance	3,37	1,05	0,28*	0,00	-0,16	-0,05	-0,11	0,77**	0,83**	1,00

\* Correlation is significant at the 0.01 level (2-tailed)

\*\* Correlation is significant at the 0.05 level (2-tailed)



Pearson correlation analysis reveals that a restaurant should mainly take into consideration the bargaining power of suppliers if it wants to employ a competitive strategy of cost leadership. When it comes to a competitive strategy of differentiation, it should give a special attention to a functional strategy of brand image. However, overall organizational performance of a restaurant is somehow in relation with functional strategies of human resources and information technologies. Thus, our research presents the linkage between industry forces, competitive and functional strategies and organizational performance. However, it should be noted that the research is limited to some restaurants in Istanbul. Thus, it needs to be repeated with some more restaurants in a wide geographic area.

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