



## Linkages among business strategy, uncertainty and performance in the hospitality industry: Evidence from an emerging economy



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### ABSTRACT

This study investigates linkages among business strategy, environmental uncertainty, and performance in an emerging economy. The hotel sector in Turkey's hospitality industry is investigated. Generic strategies were self-reported with regard to typologies developed by Porter, and Miles and Snow. Partial support was found for direct linkages between environmental uncertainty and both financial and non-financial performance. Defenders exhibited the highest value in competitive uncertainty, but the difference was not significant. Prospectors, analyzers, and defenders outperformed reactors in terms of both financial and non-financial performance. Overall, defender/cost leadership and prospector/focus strategies appear to be the best options for Turkish hotels. Following Porter's admonition, hotels in Turkey seeking to combine low cost and differentiation approaches are likely to end up "stuck in the middle." Implications for managers and future research are discussed.

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### 1. Introduction

With the emphasis on business growth shifting to the emerging economies of nations such as Brazil, Russia, India, China, Turkey, Thailand, and Colombia, a closer examination of how firms in these countries function is warranted. There is an abundance of published work in the strategic management field assessing issues such as emerging new values, social systems, competitive forces, and manufacturing strategies (Furrer et al., 2008; Kukalis, 2009). Although these papers have contributed to our knowledge of the structure–strategy–performance paradigm (Greckhamer et al., 2008; Hoskisson et al., 1999), most have examined firms in developed nations (Falshaw et al., 2006). As a body of work, they have deemphasized environmental effects (Nandakumar et al., 2010) and roles played by cultural and economic development vis-à-vis developing nations (Groznik and Maslaric, 2010; Beneke,

2010), particularly in the hospitality industry (Naipaul and Wang, 2009). Moreover, there is a need for additional work related to business strategies and strategic decision-making in this industry (Harrington and Ottenbacher, 2011; Enz, 2010; Olsen, 2004).

This paper addresses this gap by examining the relationships among uncertainty, strategy, and performance in the Turkish hotel industry. Specifically, it aims to answer two key questions with respect to hospitality management in emerging nations. First, what is the structure of any relationships that might exist among generic strategies, uncertainty, and performance? Second, how does perceived environmental uncertainty influence the relationship between competitive strategy and performance?

Organizations in Turkey are assessed for a number of reasons, including their influence on the Turkish economy (Efendioglu and Karabulut, 2010) and economic life (Gunduz and Tatoglu, 2003). Cultural differences in social, business, and management environments across firms (Keles and Aycan, 2011; Altınay, 2008; Çakmakçı and Karabati, 2008) also contribute to the uniqueness of this sample, as well as variance in strategic geographic positioning (Eraslan and İç, 2011) and organizational structures (Akkemik, 2012).

Tourism—a key contributor to the Turkish economy—has experienced considerable growth since the early 1980s. Tourist arrivals and receipts grew from 1.3 million and \$326 million in 1980 to 26.3 million and \$16.7 billion in 2008 respectively (Avci et al., 2011). The

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industry employs over 2.5 million individuals and includes 2514 hotels with operational licenses and 776 with investment licenses. There are many resort hotels in major destinations, including the southwestern cities of Antalya and Mugla. Tourism in Turkey is seasonal, and hotels experience a number of challenges, including low occupancy rates, a high dependency on foreign tour operators, transportation and logistics problems, inadequate infrastructure, a lack of qualified staff, a lack of sound marketing strategies, and crises due to terrorism and international conflicts (Tosun et al., 2008; Okumus and Karamustafa, 2005; Uyar and Bilgin, 2011).

The paper is organized as follows. First, a review of the literature with respect to strategy, uncertainty, and performance from both general and hotel-specific perspectives leads to the development of hypotheses. This is followed by the details of the study methodology and results. A discussion of empirical evidence is then presented. Conclusions, study limitations, and opportunities for future research are highlighted for both academicians and practitioners in the final section.

## 2. Competitive strategy in the hospitality industry

Each business employs a unique competitive strategy. A number of scholars have developed generic strategy typologies to identify the key thrusts of competitive (i.e., business level) strategies that are common to all businesses. The two most widely cited typologies are those developed by Porter, and Miles and Snow. Porter's (1981) typology emphasizes cost leadership, differentiation, and focus orientations. Miles and Snow's (1978) typology identifies prospector, analyzer, defender, and reactor approaches.

The notion of competitive strategy is explicitly tied to strategic groups (Seth and Thomas, 1994). The concept of strategic groups was proposed as a middle ground between the industry level of analysis borrowed from industrial organization theory and the firm level of analysis inherent in strategic management (Capps et al., 2002; Phelan et al., 2002; Porter, 1981). Although each business executes a qualitatively unique strategy, concentrating on similarities enables scholars to identify basic approaches that appear to be more appropriate in certain types of industries or competitive environments. A strategic group consists of businesses employing a particular generic strategy.

Research at the strategic group level has been conducted in a variety of sectors and locations. Several studies are noteworthy in the hospitality industry. Dev (1988) demonstrated that defender hotels outperformed their counterparts in stable environments, whereas analyzers performed the best in volatile environments. Dev and Brown's (1990) assessment of the lodging industry invoked a contingency perspective, assessing competitive (marketing) strategy, structure, and performance. They found that a hotel's vertical structure was significantly related to the interaction between its strategy and its task environment dynamism. These findings have been replicated in other studies, especially those in the United States (Chathoth and Olsen, 2007; Jogaratnam et al., 1999). However, Schaffer (1986) found that strategies in the hotel sector did not fit Miles and Snow's archetypes.

Several notable studies have been employed in Spain. Garrigós-Simón et al. (2005) employed the Miles and Snow typology in the Spanish hospitality industry and demonstrated differences across select performance measures (e.g., total performance, profitability, growth, stakeholder satisfaction, and competitive position), noting that reactors consistently underperformed other businesses. Claver-Cortes et al. (2005) investigated Spanish hotels and identified significant differences across strategic groups as well. Claver-Cortes et al. (2007) found that high performing Spanish hotels tended to be mid-sized or large members of a chain with amenities consistent with higher quality categories, with

competitive strategies closely aligned with their resources. Oreja-Rodríguez and Yanes-Estévez (2007) assessment of tourism firms in the Canary Islands (Spain) revealed that perceived environmental uncertainty was a function of both complexity and dynamism.

Although there is a dearth of research in the hospitality industry in emerging economies, some progress has been made. In the Lithuanian hospitality industry, strategies emphasizing innovation have been associated with high performance (Sekliuckiene and Hopeniene, 2011). Bordean et al. (2010) explored four strategy types—differentiation, focus-differentiation, training, and hybrid approaches—in one- to four-star hotels in northwestern Romania. They also identified differences in business performance across strategic groups.

A number of published works have addressed sectors in Asia. Yeung and Lau (2005) found that hotels in Hong Kong increased their financial performance by diversifying their action portfolios; moreover, nonconformity about competitive actions negatively affected performance. Hotels with competitive strategies similar to the dominant profile in the industry outperformed those with more distinctive approaches (Yeung and Lau, 2005). Han (2012) demonstrated that strategic orientations moderated and affected financial results in Korean hotels.

Several recent studies have assessed the strategy–performance linkage in China. Wang et al. (2012) demonstrated a link between market orientation and performance in the Chinese hotel industry. Market orientation mediated the effect between total quality management and hotel performance. External environment factors were found to moderate the linkages among total quality management, market orientation, and hotel performance. Lo (2012), investigating the relationships between generic strategies and performance, found that differentiation was the only generic strategy that significantly influenced customer satisfaction in the Chinese hotel industry.

Several noteworthy studies have assessed the Turkish hospitality industry. Akgunduz (2007) found a preference for the differentiation strategy among five-star hotels in Istanbul. Avci et al. (2011), applying the Miles and Snow typology to tourism firms in Turkey, demonstrated differences in both financial and non-financial performance based on strategic orientation, with prospectors outperforming their counterparts. Altınay (2010) examined the influence of changing co-ethnic consumer habits and the nature of competition on the market orientation of ethnic minority-owned hospitality firms that consist of Turkish small business owners from the United Kingdom. He found that market orientation emanates from the nexus between the changes in ethnic and mainstream business environments.

Limitations notwithstanding, the extant literature on the strategy–performance relationship in the hospitality industry—particularly in Turkey and other emerging markets—serves as a foundation for additional work. Hypotheses elaborated in the following section and tested in this study are based in part on this foundation and in part on strategy–performance research in other industries.

## 3. Theoretical framework and hypotheses

Strategic management researchers have attempted to define the strategic behaviors of organizations to explain their successes and failures. As previously noted, a number of generic strategy typologies have emerged (see Hitt et al., 1982; Huber, 1984; Miller, 1986; Courtney et al., 1997; Narasimha, 2001), most notably those proposed by Miles and Snow (1978, 1986) and Porter (1980). Much of the published work at the business strategy level applies one of these two typologies (Segev, 1989; O'Regan and Ghobadian, 2006; Nerur et al., 2008; Acquah and Yasai-Ardekani, 2008). The present

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