

Competitive Advantage Strategies for SMES in Tourism Sector: A Case Study

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Abstract

In order to survive in today's chaotic business environment, small companies must find and use creative techniques as a source of competitive advantage, since the rules of competitive game of business have changed significantly. Therefore, changing the ways of doing things could be considered as the only choice to become successful for entrepreneurs. From a strategic perspective, the key to business success is to develop a unique competitive advantage that creates value for customers and is difficult for competitors to duplicate. As one of the largest and fastest growing sectors of the global economy, tourism consists of many small and medium size enterprises which try to be successful in an extremely competitive and rapidly changing business environment. To create competitive advantage in this environment, a small tourism enterprise has to choose a powerful strategy. The number of strategies from which the small tourism business owner can choose is infinite. Tourism businesses, like the ones in other sectors, have been exposed the forces of rapidly changing competitive environment; they have to find the ways to survive and grow under the rapid changes and uncertainty brought by globalization. In this study, after evaluating former studies on strategies of gaining competitive advantage and its applications in small and medium size enterprises in tourism, the obstacles affecting small businesses in tourism and their competitive advantage strategies are examined by conducting an empirical study. In addition, based on a hypothetical example from the tourism industry (a small enterprise newly established by an entrepreneur who seeks to find a good position in the marketplace) some strategies which can be chosen by the small business owner in order to create competitive advantage are suggested.

Keywords: competitive advantage, strategic management, entrepreneurship, tourism, competitive strategies

Introduction

Political changes in all over the world, rapid technological advances, intense competition, and newly emerging global markets make the business environment more turbulent and challenging to business owners. Although the business environment characterized by uncertainty and turbulence creates many challenges for small businesses, it also offers opportunities for the companies which have solid business strategies.

In a stable market environment with certainty and slow pace of change, companies try to find the best fit between the existing market opportunities and company capabilities while formulating strategies. Companies take industry structure and competitive conduct as it is and then they choose a strategy that adapts to the market environment. Much less attention is devoted to assessing strategies that might fundamentally shape industry structure and conduct to create changes that play to a company's advantages. This emphasis on adapting rather

than shaping is natural in stable business environments, where key elements of industry structure and conduct - such as technology platforms, regulations, competitors, and customer purchasing patterns - appear to be locked-in and difficult to change.

In more uncertain markets, however, many of these key elements may be indecisive and unstable, and hence susceptible to being shaped. A company's decision to adopt a new technology, for example, may help establish that technology as the industry standard. Under what circumstances should companies attempt to proactively shape uncertain industry structure and conduct, and when is it better to reactively adapt to industry changes over time?

Whether a company chooses to shape or adapt, strategy invariably involves making at least some major commitments that are difficult to reverse. These include acquisitions, capital investments, and choices about the design of the business system. The timing of such commitments is often the key to building and sustaining competitive advantage. In today's global competitive environment, any business, large or small, that could not think and act strategically is extremely vulnerable.

The rules of competitive game of business have changed dramatically. To be successful, companies can no longer do things in the way they have always done them. Fortunately, successful companies have a powerful weapon to cope with a hostile, ever-changing, and uncertain business environment: the process of developing competitive advantage strategies.

As one of the fastest growing industries of the global economy, the tourism industry consists of many small and medium size enterprises which try to be successful in an extremely competitive and rapidly changing business environment. To create competitive advantage in this environment, a small tourism enterprise has to choose a powerful strategy. The number of strategies from which the small tourism business owner can choose is infinite.

This paper builds a theoretical background and provides propositions showing how competitive advantage strategies are applied in small and medium-sized enterprises in the tourism industry. After evaluating former studies on competitive advantage and its applications in small and medium-sized enterprises in the tourism industry, based on a hypothetical example structured on an empirical study on the obstacles affecting small businesses in tourism and their competitive advantage strategies, some competitive advantage strategies are suggested for small and medium-sized enterprises in tourism.

SMEs and SMEs in Tourism

In today's globalized world, SMEs have become more important for both developed and developing countries since they generate significant percentages of overall production and employment. Definitions of SMEs vary from country to country. Number of employees and total turnover -depending on the industry- are used as measures by The North American Industry Classification System. The European Union (EU) has created a uniform definition: SMEs are independent enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro and/or an annual balance sheet total not exceeding 43

million euro. This definition has been adopted, with modifications, by most member states of EU and some non-EU countries (Eikebrokk and Olsen, 2007).

Turkey's SME policy is guided by its SME strategy and action plan prepared in 2003 in line with the European Charter for Small Enterprises as well as by the national development plan, the medium-term, and the annual programmes. The Small and Medium Industry Development Organisation (KOSGEB) runs a multitude of support schemes in the areas of consultancy/training, technological development/innovation, international cooperation, export promotion, entrepreneurship development, information technology, quality improvement and regional development. Turkey's SME definition is largely in line with the EU definition except for its annual turnover threshold, which is considerably below the EU's. KOSGEB's SME support programmes have been aligned with the new SME definition in June 2006. KOSGEB data verifies that 99.8 percent of Turkey's economy is made up of SMEs. However, the share of SMEs in overall employment stands at 76.7 percent, its share in investments 56.5 percent. The added value they have created is 38 percent and their direct contribution to exports is around 10 percent (KOSGEB, 2007).

Small and medium enterprises (SMEs) have begun to play a critical role in not only national trade but also in international trade. Statistics from the Organization for Economic Cooperation and Development (OECD) and other sources indicate that SMEs now account for a very substantial proportion of exports from most industrialized nations (Knight, 2001, p.155).

The significance of new firms in job generation, innovation, and economic change is widely accepted, and tourism SMEs are assigned an important role as an aid to regional development. They are labor intensive and frequently multi-tasking, thus allowing for flexibility in meeting the needs of their customers. On the other hand, many of them are family enterprises so as to there are sufficient instances of those with little market stability, low levels of capital investment, weak management skills and resistance to advice or change, which cause barriers to successful tourism development. The solution to difficulties of this kind that tends to be adopted by government agencies in the field is to identify good practices that can be held up as exemplars. Action is then taken to try and upgrade standards through "benchmarking", sharing best practice, providing financial support, and investing in the skills of the labor force. Tourism SMEs fulfill a dual role of on the one hand being an innovative and enterprising force in the local economy and on the other a reservoir of hidden unemployment (people creating their own work). In this respect, developing countries are not too different from mature economies, where it is observed that small business start-ups accelerate during a recession (Wanhill, 2000). Within the hospitality, tourism and leisure industries, while there are a large number of multi-national chains, the industries are still dominated by a substantial volume of small, entrepreneurial enterprises.

The Competitive Advantage Concept

There has been comparatively little research that explores competitive advantage in small firms as compared to studies of competitive advantage in large companies. That competitive advantage in the

smaller firm often arises accidentally as a result of particular operating conditions surrounding the enterprise could be shown as one of the main reasons (Jennings and Beaver, 1997). In addition, it is thought that traditional competitive advantage models are not completely applicable for smaller firms because they assume the existence of scale economies and it is recognized that small firms cannot compete with larger organizations in terms of economies of scale (O'Donnell, Gilmore, Carson and Cummins, 2002, p.207).

Complete understanding of a competitive advantage requires a complex, multidimensional portrayal of all points of superiority or deficiency between a business and its competitors (Day and Nedungadi, 1994). The creation of a competitive advantage through the development of a competitive strategy entails the ability to compare the firm's position with its competitors. Porter (1991) claimed that, when formulating a competitive strategy, managers should be able to identify the competitors constituting their industry. Competitive advantage has been used interchangeably with "distinctive competence" to mean comparative superiority in skills and resources. Competitive advantage is often appraised in relation to industry structures, products, markets, customers, strategies, and communication. It has also been used for describing positions of superiority based upon the provision of superior customer value or the achievement of lower relative costs and the resulting market share and profitability performance. The sources of competitive advantage for firms are superior skills and resources (Day and Wensley, 1988). These sources of advantage act as structural determinants or drivers of cost or differentiation advantages (Porter, 1985). An organization's capabilities can lead to a positional advantage based upon innovative offerings or superior service. Companies that possess such an advantage could have superior performance. The resource based view (RBV) perspective focuses serious attention on resources, which can be defined as assets that are tied semi-permanently to the firm (Hult and Ketchen, 2001, p.900). Resources are the tangible and intangible assets a firm uses to choose and implement its strategies (Barney, 2001; p.54). According to the RBV, unique assets, such as patents and reputations, are more important than others. Unique assets are difficult for competitors to replicate and thus serve to differentiate their possessors. It is suggested that market orientation, entrepreneurship, innovation, and organizational learning constitute unique resources independently, but rather that they can collectively contribute to the creation of a unique resource. Each of these four elements are necessary but are not individually sufficient for creating positional advantage. Each element is adequate to offer strengths, but together they can help a firm be uniquely competitive (Hult and Ketchen, 2001, p.900).

Entrepreneurship refers to the quest of new market opportunities and the renewal of existing areas of operation. Entrepreneurial organizations could perform well in dynamic environments, but not in regulated markets. They have low performance in stable environments because the slow pace of change in these settings rewards efficiently exploiting extant opportunities, not aggressiveness. Therefore, entrepreneurship could be beneficial in many contexts, but does not, by itself, provide a sustainable competitive advantage (Hult and Ketchen, 2001; pp.901-902).

Innovativeness is present when the implementation of new ideas, products, or processes is encouraged. Innovation is a critical

complement to entrepreneurship because an organization that pursues new opportunities, but is not innovative in meeting the desires of the market, is unlikely to enjoy long-term success. In addition, innovation alone does not guarantee success. Organizational learning refers to the generation of new insights that have the potential to reshape behavior. An organization can extract lessons from both successes and failures in order to develop better tools to be competitive. Like entrepreneurship and innovation, organizational learning alone is not sufficient to develop sustained advantages (Hult and Ketchen, 2001, pp.901-902).

Companies can achieve competitive advantage by conceiving new ways to conduct the activities of the value-chain in order to deliver superior value to customers, which may be defined as an act of innovation (Porter, 1985). It is seen that innovation and the competitive advantage process are inter-connected. However, empirical evidence shows that innovation leads to sustained competitive advantage has been confined to manufacturing industries. While the importance of innovation for national competitiveness and economic growth is recognized, services are viewed as innovation laggards that make little or no contribution to either productivity or growth. However, in addition to an increasing strength of competition and changes in technology, the move by organizations to a major dependence on services would point to the importance of innovation as a key component for competitive advantage for service firms (Weerawardena and McColl-Kennedy, 2002, p.13). A number of key characteristics of services differs them from products. Some of these characteristics are (Miles, 1993; Weerawardena and McColl-Kennedy, 2002, p.14): (a) a close interaction between production and consumption (co-terminality), (b) a high information- intangible content of services products and processes, (c) an important role played by human resources as a key competitive factor and (d) a critical role played by organizational factors for the firm's performance.

Creating Competitive Advantage in SMEs

Small firms and start-up ventures have been skilled in developing innovations in order to exploit profitable market opportunities but less effective at sustaining the competitive advantages that are based on distinguished firm-specific resources needed to exploit those opportunities over time. The study of Hyvonen and Tuominen (2006) shows that technological innovation capability and strong relationships with customers and supply chain partners are the key determinants of positional and economic performance advantages in SMEs. Small and medium-sized firms' commitment to learning strengthens their position in the marketplace.

Recent studies have shown that small firms produce more economically and technically important innovations than larger firms. The entrepreneurial secret for creating value in the marketplace is applying creativity and innovation to solve problems and to exploit opportunities that people face every day. Briefly, entrepreneurs succeed by thinking and doing new things or old things in new ways. Small companies must use creative techniques as one source of competitive advantage (Zimmerer and Scarborough, 2005). One of the fundamental questions of competitive strategy is: Where does a company have an edge over its rivals? In dynamic environments, the sources and nature of these advantages often experience rapid changes. Firstly, a

company must determine the meaningful set of competitors in order to assess its advantages over rivals. Secondly, after determining relevant set of competitors, the second question is: Does the company have a sustainable edge over the competition? A three step process can be helpful in determining the company's sustainable edge. This process is part of never-ending cycle of creation and erosion of advantages that must be mastered to achieve superior profitability (Day and Reibstein, 1997, p.21):

- The first step asks whether the company has demonstrated that it has an advantage by delivering superior customer value.
- The second step is to understand the sources of these advantages. These are the superior assets and distinctive capabilities that set the organization apart from competitors.
- The third asks how long these advantages can be sustained by putting impediments in the way of competitors' efforts to imitate, and investing to renovate the advantages or find new ones.

Potentially effective strategies in competitive advantages of small business ventures can be summarized as follows (Meredith, 1988, pp.28-31):

- serving personalized services to customers
- flexibility and adaptability
- specialized and customized products and services
- effective and quick decision making process
- employer and employee motivation based on close relationships
- geographic specialization

Building a competitive advantage alone is not enough; the key to success is building a sustainable competitive advantage (Wickham, 2006; Zimmerer and Scarborough, 2005). In the long run, a company gains a sustainable competitive advantage through its ability to develop a set of core competencies that enables it to serve its selected target customers better than its rivals. Core competencies are a unique set of capabilities that a company develops in key areas, such as superior quality, customer service, innovation, team building, flexibility, responsiveness, and others that allow it to leave behind its competitors (Zimmerer and Scarborough, 2005, p.69). When it comes to developing a strategy for establishing a competitive advantage, small companies have a range of natural advantages over their larger competitors. Small businesses often have narrower product lines, more clearly defined customer bases, and more specific geographic market areas than big businesses. Because of the simplicity of their organizational structures, small business owners are in touch with employees daily, often working side by side with them, allowing them to communicate strategic moves firsthand. Consequently, small businesses find that strategic management comes more naturally to them than larger companies with their layers of bureaucracy and wide-ranging operations (Zimmerer and Scarborough, 2005).

A Research on Small Businesses in Tourism

In order to determine the obstacles affecting small businesses in tourism sector and examine their competitive advantage strategies a research is conducted at lodging enterprises in Izmir, Turkey. Data are collected by interviews with managers of selected lodging

enterprises (14 managers were chosen for the interviews) in order to examine views on problems of small businesses in tourism and competitive advantage strategies of small lodging enterprises. Interviews are conducted face-to-face, via phone or via e-mail. The main aim of this research is to determine the perception of the managers about these concepts.

The case is structured on the results of interviews with managers of small and medium sized accommodation establishments. In order to prepare the case 14 small and medium sized accommodation establishments (hotels) located in Aegean Region (Turkey) were chosen and a couple of questions related to obstacles affecting small businesses in tourism and competitive advantage were asked to their managers. Based on the results of the interviews a simple case was written. The results of the interviews are summarised in Table 1.

Table 1: Summary of interview results

Questions	What are the obstacles affecting small businesses in tourism?	Determining competitive strategies is;	In order to create competitive advantage in tourism companies should;	What are your enterprise's main competitive advantages?	In order to gain business success, you should;
Hotel 1	Financial problems, bureaucratic obstacles, lack of qualified employees, fierce competition	Difficult but important	Customize their services and serve better than their competitors.	Service quality, different services than our competitors	Be better than your competitors, control your costs tightly.
Hotel 2	Financial problems, lack of qualified employees, lack of innovation	Vital	Be more responsive to their customers and be ready to change.	Customer relations, new services, and awareness of the changes in the sector	Be better than your competitors, and give importance to customer relations.
Hotel 3	Financial problems, high costs, and quality deficiencies	Time-consuming and complex	Control their costs and improve service quality.	Service quality	Maximize your profit and control your costs tightly.
Hotel 4	Lack of qualified employees, marketing problems, and financial problems	Determinant of survival	Be more responsive to their customers, build a good image, and be flexible	Brand name, image, customer relations	Give importance to customer relations, and build a good reputation and image.
Hotel 5	Difficulties in preparing a strategic plan, financial problems, barriers to institutionalization	Strategic and important	Have a more scientific approach to management, apply strategic management principles, be more flexible and responsive to the customer needs	Better relationships with customers and other stakeholders	Be better than your competitors, give importance to customer relations, and apply strategic management.

Table 1: Summary of interview results (cont'd)

Hotel 6	Financial problems and lack of expertise	Important	Customize their services and be responsive to their customer's needs.	Customized services	Be better than your competitors.
Hotel 7	Financial problems, lack of qualified employees, and uncertainty in business environment	Difficult	Control their costs.	Low prices	Be better than your rivals.
Hotel 8	Financial problems, uncertainty in business environment, and lack of expertise and innovation	Vital	Be more responsive to their customer needs, be more flexible, and adopt technological improvement	Services offered to our customers, innovation	Be more responsive to our customers and offer new services.
Hotel 9	Financial problems, lack of expertise, and lack of qualified employees	Very important	Be more responsive to their customer needs and serve better than their competitors.	Better relationships with customers and service quality	Give importance to customer relations and offer different services.
Hotel 10	Financial problems, lack of qualified employees	Needful	Control their costs and serve better to their customers.	Low prices and quality	Decrease their costs and increase service quality.
Hotel 11	Financial problems, uncertainty in business environment, and lack of expertise	The main determinant of success	Be more responsive to their customers and be better than their rivals.	Better services offered to customers and service quality	Give importance to customer relations and offer new services.
Hotel 12	Financial problems, lack of qualified employees, and lack of expertise	Important	Control their costs and customize their services.	Lower prices and customized services	Control their costs, give importance to customer relations and offer customized services.
Hotel 13	Financial problems and bureaucratic obstacles	Complex	Control their costs and offer better services.	Low prices	Be better than your competitors.
Hotel 14	Financial problems, lack of qualified employees, lack of expertise and innovation	Vital and determinant of business success	Be strategic, be more responsive to their customers, and be innovative	Customized services, service quality, good relationships with customers	Customize your services in order to create value, find qualified employees, and apply

Due to the answers given to the interview questions, it can be concluded that financial problems and lack of qualified employees were denoted as the most significant obstacles affecting small businesses in tourism by most of the managers interviewed. Moreover, all of them accepted the importance of building a competitive advantage in gaining business success. The interviewees seemed to understand the changing rules of the competitive game. However, some of them stated that they found the process of determining competitive strategies complex, difficult or time-consuming mostly due to some financial problems, lack of skills and lack of money to import trained consultants.

A small, entrepreneurial, start-up hotel, located at a destination on Aegean coast, which suffers from resource poverty, is chosen as an example. It is established by an entrepreneur who is ready to take risks in order to gain competitive advantage over his/her competitors. However, the entrepreneur, as the owner of the lodging enterprise, does not want to take risks blindly, so he/she wants to develop some strong strategies. He/she understands the importance of having clear strategies in gaining competitive advantage for his/her business in today's uncertain and turbulent business environment. The obstacles which the small business owner faces can be summarized as follows: financial problems, lack of expertise, lack of qualified employees, fierce competition in tourism market, bureaucratic obstacles, economic and politic instabilities, and uncertainty in business environment. However, the small business owner realizes the advantages which small businesses have in adapting to market conditions and benefits of establishing clear strategies in order to gain competitive advantage in the market.

Many small hospitality, tourism, or leisure-based business can theoretically be set up with mainly working, rather than permanent, capital since the fixed assets which the business needs to use are minimal. There is therefore a situation where individuals with only modest amounts of their own capital are motivated to start-up a business in the tourism industry. Non-financial barriers to entry are also fairly modest within the hospitality, tourism and leisure industries. In the main, the controls over expertise tend to be focused on very narrow areas of technical knowledge. Consequently, as well as low financial barriers to entry, there is the prospect of many entrepreneurs setting up in business with inadequate levels of business expertise. Taken together, these two factors contribute to a scenario where many entrepreneurs have low levels of personal capital, and may enter into business with unproven levels of business expertise. This situation is described as resource poverty. Both financial funding and expertise are in short supply. It is not a good prognosis for success, but a situation which offers unlimited entrepreneurial opportunity (Morrison, Rimmington and Williams, 2005).

Decisions about strategy content must be made in the light of and understanding of external conditions such as characteristics of the market, the competitive situation and the way which different sectors can be served, and in the light of internal concerns such as the mission and goals of the organization, the resources it owns and its capabilities. The venture achieves success if it directs its resources in an appropriate way towards delivering rewarding and sustainable

strategy content. Investments in financial, operating and human resources all play in supporting the strategy content (Wickham, 2006; p.351, p.360).

Firm-level strategy is synonymous with strategic orientation that is commonly defined as, "how an organization uses strategy to adapt and/or change aspects of its environment for a more favorable alignment" (Manu and Sriram, 1996, p.79). Formulating an effective business strategy for a firm is a complex task. One of the major determinants that influence manager's choices of business strategy is gaining competitive advantage in an industry. The life cycle stages of the industry and the rate of technological change are two drivers that have important impact on industry revolution (Lei and Slocum, 2005, p.31).

Small companies must develop strategies that exploit all of the competitive advantages of their size by (Zimmerer and Scarborough, 2005, p.89; Wickham, 2006, p.363):

- Responding quickly to customers' needs.
- Offering a new product or service.
- Offering greater value.
- Remaining flexible and willing to change.
- Constantly searching for new, emerging market segments.
- Building and defending market niches.
- Erecting "switching costs", the cost a customer incurs by switching to a competitor's product or service, through personal service or loyalty.
- Remaining entrepreneurial and willing to take risks and act with lightning speed.
- Creating new relationships.
- Constantly innovating.

For the small company, the goal of developing a strategic plan is to create a competitive advantage - the aggregation of factors that sets a small business apart from its competitors and gives it a unique position in the market superior to its competition. From a strategic perspective, the key to business success is to develop a unique competitive advantage, one that creates value for customers and is difficult for competitors to duplicate (Zimmerer and Scarborough, 2005, p.69). Traditionally, there exist three strategic options for SMEs (Porter, 1980):

- 1 **Cost leadership Strategy:** A company strives to be the low-cost producer relative to its competitors.
- 2 **Differentiation Strategy:** A company seeks to build customer loyalty by positioning its goods and services in a unique or different fashion.
- 3 **Focus Strategy:** A company selects one or more market segments, identifies customers' special needs, wants, and interests, and approaches them with a good or service designed to excel in meeting those needs, wants, and interests.

Conclusion

All the changes occurred during the last few decades, from political changes in the world and rapid technological advances to more intense

competition and newly emerging global markets, have made the business environment more turbulent and challenging to business owners. Although this market turbulence creates many challenges for small businesses, it also creates opportunities for those companies that have in place strategies to capitalize on them. Small businesses' willingness to create change, to experiment with new business models, and to break traditional rules have become more important than ever.

Companies that do not have clear strategies may achieve some success in the short run, but as soon as competitive conditions stiffen or an unforeseen threat arises, they usually "hit the wall" and fold. In today's global competitive environment, any business, large or small, that is not thinking and acting strategically is extremely vulnerable. Every business is exposed to the forces of a rapidly changing competitive environment, and in the future small business executives can expect even greater change and uncertainty (Morrison, Rimmington and Williams, 2005, p.198).

Even though strategic planning and strategic management are strongly related to small and medium-sized enterprises' financial performance, many of these companies still do not use the process in order to build their competitive advantage strategies. The reasons behind this are fourfold (Wheelen and Hunger, 2006, pp.319-320):

- Time constraints and uncertainty of future,
- Unfamiliarity with strategic planning and management process,
- Lack of skills and lack of money to import trained consultants,
- Lack of trust and openness, unwilling to share business ideas and strategies with employees and outsiders.

In order to choose appropriate competitive strategies small businesses should target a 'niche market' and avoid direct competition with larger companies (Cooper, 1989). Small businesses should concentrate on the markets where they have a competitive advantage or which are neglected by large companies. Some suggestions to small businesses are as follows (Hing, 2001, p.78):

- Small businesses should concentrate on specialized markets.
- Small businesses should concentrate on opportunities arising from rapid market changes.
- Small businesses can concentrate on short production runs, quick delivery and customized service.
- Small businesses can use scarce materials, locate in areas with small labour forces and utilize unique approaches.
- Small businesses have a low profile, can move quickly and be less concerned about government regulatory attitudes and their visibility to communities and unions.

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