Reference theory: strategic groups and competitive benchmarking

George Panagiotou
London Metropolitan University, London, UK

Received February 2007
Revised June 2007
Accepted July 2007

Abstract

Purpose – The concept of strategic groups is a central theme in the field of strategic management, and over time it has been used by a considerable body of theoretical and empirical literature to examine different aspects of competitive strategy. However, to date, there has been little systematic investigation that examines aspects associated with competitive benchmarking and the impact and effect that this has on strategy development. Thus despite the level of knowledge that has been accumulated over the years regarding the dynamics of competitive landscapes, our understanding of the impact and effect of this particular matter on decision making is limited. More importantly, studies that have addressed the topic are either theoretical alone in contents or have only used secondary data. Equally, these studies have approached the subject mostly from an impersonal mathematical perspective and practitioners' views on the issue have been overlooked. This paper aims to address these weaknesses in the literature. In doing so, it seeks to place attention on the individual, which has been overlooked by previous examinations.

Design/methodology/approach – The research is cross-sectional and it is based on primary methodology, having employed qualitative techniques for analysis. It involves face-to-face semi-structured interviews combined with the repertory grid technique. The industry investigated is the UK mainstream leisure foreign package holidays. The sample size is near to the sampling frame of the research and the investigation took place between March and August 2003.

Findings – It was found that managers of firms from the same strategic group consider their group as a reference point in their decision-making process and as a result of their benchmarking observations they adjust their firms' competitive strategies to reflect their group's strategic behaviour. It was also found that firms of the same strategic group are more likely to respond to market conditions and events in a similar manner.

Originality/value – This paper examined issues associated with benchmarking, in the context of strategic groups, having employed primary qualitative research strategies in order to add "fresh" data on a topic that so far has merely been investigated quantitatively through secondary sources alone. As such, it has initiated a much needed contents dimension on the topic to complement the activity and process-oriented only studies in the area. The research not only tested earlier propositions in order to accumulate more evidence in the field and enable better generalisations on the subject but it has also expanded current theories in the area.

Keywords Strategic groups, Strategic management, Competitive strategy, Benchmarking

Paper type Research paper

Introduction

The term "strategic groups" was introduced in the literature by Hunt (1972) and was the result of an observation that there appeared to be asymmetries between firms in terms of vertical integration, degree of product diversification and product differentiation, when investigating the US white goods industry in the 1960s from

Management Decision
Vol. 45 No. 10, 2007
pp. 1595-1621
© Emerald Group Publishing Limited
0025-1747
DOI 10.1108/00251740710837988

an industrial organisation (IO) perspective. Based on their levels of homogeneity, four strategic groups were identified in that industry, and such groupings defined as the groups of firms that are highly symmetric.

Porter (1980) extended Hunt's work and redefined strategic groups as the groups of firms in an industry that follow the same or similar strategies along key strategic dimensions. Such dimensions include structural aspects (i.e. organisational size, product homogeneity and type of distribution channels) and competitive behaviour (i.e. price similarity against rivals, level of service offered and competitive attitude). Later on, Cool and Schendel (1988) added that a strategic group is the set of firms competing within an industry on the basis of similar combinations of scope and resource commitments.

Afterwards, Porac and Thomas (1990) following Porac *et al.* (1989), argued that instead of strategic groups being identified through analysts' observations of organisational similarities in an industry, such groupings are best documented using managers' perceptions because decision makers tend to define their competitive landscape by matching known competitive characteristics to known organisations. These cognitive categories develop when there are sufficient attributes to distinguish similar groups of firms from others. The firms that share the same basic characteristics are perceived to be in closest competition with each other. The latter, lead to the notion of "primary competitive groups", which Porac *et al.* (1989) described as a collection of firms that define each other as rivals. They continued, that the notion of the primary competitive groups makes the concept of strategic groups more complete because rather than categorising these firms just from the supply-side of their operating environment as the strategic group theory does, the notion of primary competitive groups also includes marketplace and technological characteristics since these features are interrelated in the minds of managers. Consequently, the primary competitive groups represent the psychological reality for their members.

In time, the concept of strategic groups became a central theme in the area of strategic management because of its ability to explain the dynamics of competitive terrains, and since its initial introduction, it has been used by a considerable body of theoretical and empirical literature to examine different aspects of competitive strategy (Hodgkinson, 1997) from diverse perspectives (Osborne *et al.*, 2001) and it is now a key theory for understanding competitive landscapes and strategy development (Leask and Parker, 2006).

Over the years, researchers have been investigating strategic groups in order to examine a number of competitive aspects such as contestability of competitive market structures, industry dynamics, structural evolution and strategic change (see Porter, 1980; Hatten and Hatten, 1987; Nohria and Garcia-Pont, 1991; McGee *et al.* 1995; Dornier and Karoui, 2003). Some have used the concept to study firms' competitive behaviour (see Smith *et al.*, 1997; Peng *et al.*, 2004) and competitive positioning (see Flavian and Polo, 1999; McNamara *et al.*, 2002). Others investigated mobility barriers (see Sudharshan *et al.*, 1991; Ferguson *et al.*, 2000) and intra-industry variations in group performance to inform firm profitability issues (see Lawless and Tegarden, 1991; Cool and Dierickx, 1993; Ferguson *et al.*, 2000; Nair and Kotha, 2001; Ma Valle, 2004).

Benchmarking issues and shortcomings of the literature in the area of strategic groups

Panagiotou (2005) articulates that strategic groups are these firms in an industry that are pursuing similar positioning strategies (differentiation or cost leadership) in their markets (broad or niche in scope) and sell comparable products and services to the same or similar target group(s). As a result, firms in the same grouping face similar challenges and opportunities in their competitive terrain because they are affected by the same environmental conditions in the industry and are driven by the same key factors for success (KFS) in the market (Panagiotou, 2005, 2006a). As such, they employ similar resources, create similar structures, develop similar capabilities and adapt similar competitive strategies, in order to achieve the required strategic fit with the external environment and compete with each other (Panagiotou, 2005, 2006b).

Thus given the large similarities that characterise firms in the same strategic group, it is logical to assume that managers from these firms benchmark against other firms in the same grouping to keep a "close eye" on competition and counteract competitive activities in their grouping in order to maintain their position. However, to date, in the area of strategic groups there has been little systematic investigation that examines aspects associated with competitive benchmarking either directly (Kumar *et al.*, 1990; Fiegenbaum and Thomas, 1995; Fiegenbaum *et al.*, 1996; Shoham and Fiegenbaum, 2002; Athanassopoulos, 2003) or indirectly (Reger and Huff, 1993; McNamara *et al.*, 2002). More importantly, studies that have directly addressed the topic are either theoretical alone in contents (Kumar *et al.*, 1990; Fiegenbaum *et al.*, 1996; Shoham and Fiegenbaum, 2002) or have only used secondary data (Fiegenbaum and Thomas, 1995; Athanassopoulos, 2003). Equally, these studies have approached the subject mostly from an impersonal mathematical perspective, and practitioners' views on the issue have been overlooked.

Research that directly examines benchmarking activities from the all-important human element, in the context of strategic groups, is at large missing from the field. After all, it is people who think for, and drive organisations. Thus despite the level of knowledge that has been accumulated over the years regarding the dynamics of competitive landscapes, our understanding of the impact and effect of this particular matter on decision making is limited. Clearly, it makes little sense to ignore this essential viewpoint, because such a dimension can potentially make a further contribution to our understanding of competitive behaviour and can shed light into the reasons that create and maintain such group homogeneity.

This limitation in the literature is equally acknowledged by a number of researchers in the field (Fiegenbaum *et al.*, 1996; McNamara *et al.*, 2002; Shoham and Fiegenbaum, 2002). However, studies in the area that address this aspect have not been forthcoming. Interestingly, the mainstream literature on benchmarking from the wider area of total quality management (TQM) faces similar gaps and a number of authors have called for the inclusion of the human element in future examinations (i.e. Yasin, 2002; Dattakumar and Jagadeesh, 2003). In particular, Dattakumar and Jagadeesh (2003, p. 191) state that:

> The present review of literature on benchmarking, carried out as part of on-going research, has identified certain issues (one of which is the human element) that have not been satisfactorily addressed or not been addressed at all. These issues can be regarded as inadequacies and they offer scope for further research and exploration.

Perhaps, early studies on the topic have drawn from the mainstream benchmarking literature, and in the process, the same problems were inherited in the area of strategic groups. Thereafter, because other investigations followed in the same footsteps, this type of a weakness was institutionalised hence leading to a parallel gap.

Direction and scope of the study

This paper examines the impact and effect of managerial perceptions on benchmarking, in the context of strategic groups, in order to introduce the human element in the area and bridge an important gap in the literature. In doing so, primary research is conducted and mainly qualitative methodology and analysis are used in order to incorporate this dimension in the field that is currently missing. At the same time, existing theories are tested to evaluate their validity since they are yet to be tested out. In addition, an attempt is made to explore new aspects on the topic in order to advance knowledge and understanding on the subject matter further.

Literature review

The first study that explored the concept of benchmarking in the context of strategic groups was a theoretical paper by Kumar *et al.* (1990) that extended Kumar's (1987) earlier work, which was similar to that of Karnani (1982, 1984). This initial view advanced a benchmarking model using the analytical concepts of game theory, in order to predict future strategic group structure and firms' competitive positioning in the industry, based on a number of assumptions and hypothetical scenarios.

In operationalising the model it is postulated that firms have adequate access to information, and therefore, an overview of market factors; that decision makers exhibit efficient behaviour and that they control at large, and can compute, internal strategies on marketing, manufacturing and financial functions; that they favour higher value variables and that they have the ability to pursue optimal strategies. These higher value variables are then viewed as organisational targets and are regarded as future benchmarks, or reference points, based on the additional assertion that managers will select in order to pursue long term strategic positions in the industry to achieve sustainable competitive advantages.

Thus managers are viewed as super humans with the ability to gather, interpret and decide uniformly in the best possible way on all relevant data and that strategy development is trouble-free from individual and organisational constraints or competitive pressures. Equally, given that the model attempts to predict future group structure and firms' competitive positioning in an industry, it is also implicit in the analysis that the external environment does not experience events that alter the prevailing conditions of the competitive landscape and that industry dynamics remain static. Therefore, the process also assumes a certain level of environmental stability.

However, people, in their role as decision makers in their firms' hierarchical structure of command enjoy or suffer varied levels of diverse abilities and constraints and are characterised by their cognitive levels, which are limited to one extent or another (Porac *et al.*, 1989). Not all people have the same ability to read, interpret and conclude in the same manner in relation to the same data (Weick, 1979, 1995). From an organisational perspective not all firms have the funds required or the time needed to generate the necessary data, neither do they have the same capabilities to pursue the same strategies. Not all managers have the same abilities in problem solving nor do they follow the same objectives, neither are they driven by the same values. Business environments are not static but they continuously change as a result of human activity. Consequently, the model proposed by Kumar *et al.* (1990) is at large a paper exercise with limited real-life application. Even the authors admit that game-theoretic models have minimal practical significance from a strategy formulation perspective.

The second study (Fiegenbaum and Thomas, 1995) expanded the first and viewed benchmarking from a reference theory perspective. It proposed that a strategic group acts as a reference point for group members when formulating competitive strategies. By way of introduction, reference theory was first discussed in behavioural sciences by Cooley (1964), who argued that individuals take on various psychological interpretations of themselves based on how they thought others perceived them. The term "reference group" was formally used for the first time by Hyman (1942), who defined it as a person's conception of his own position relative to other individuals. French and Raven (1959) introduced the additional concept of "referent power" and argued that if a reference group is attractive to others, then, the individuals will have a feeling of membership or a desire to join.

Kelley (1952), building on the work of earlier scholars in the area, added that the reference group theory distinguishes two types of phenomena: normative reference groups and comparative reference groups. A normative reference group is a group in which individuals are motivated to gain or maintain acceptance. A comparative reference group is used to portray a group that others use as a reference point, when evaluating or comparing themselves against that group, or other individuals and groups. In addition to normative and comparative reference groups, there are also multiple reference groups used to describe individuals' efforts to compare the various facets of themselves against multiple sources of reference for the various dimensions of interest (Hyman, 1942; Turner, 1955).

In short, reference group theory provides a way with which to define and interpret practices that appear to be both cognitive and normative within a social context, and it is based upon the principle that people take the standards of significant others as a basis for benchmarking in making self appraisals, comparisons and choices regarding need and use of information (Dawson and Chatman, 2001). In business strategy this forms the platform in which benchmarking is carried out. Spendolini (1992) defined benchmarking as the continuous, systematic process for evaluating the products, services and work processes of organisations that are recognised as representing best practices for the purpose of organisational improvement. He also defined competitive benchmarking as an external benchmarking activity that involves identification of the products, services and work practices of an organisation's direct competitors.

Although Fiegenbaum and Thomas (1995) discussed the benefits of the reference group theory in the context of strategic groups, a cognitive perspective was not developed in the study and hence the suggestion remained rhetoric. In contrast, the study used secondary financial data (US insurance industry 1974-1984) from past research (Fiegenbaum and Thomas, 1990) and the analysis involved a partial adjustment model on financial variables alone based on product scope and diversity, firm size, production, finance and investment. Despite the strength of such an approach, financial aspects represent the bottom line of an organisation, which, of course, is the aftermath of strategies that, in turn, are the result of decision making. However, none of these variables have been considered in the analysis. Thus the derived conclusions on the propositions that the strategic group is a reference point for group members in the process of making strategic decisions and that strategic group members will adjust their strategic behaviour toward a group reference point are somewhat implicit and interpretative without any real underpinning justifications. Fiegenbaum and Thomas (1995) also acknowledge the limitations of empirical analysis alone and suggest a more cognitive approach in order to improve the predictive and descriptive quality of future studies in the area.

The third study (Fiegenbaum *et al.*, 1996), a theoretical paper, consolidates on the work articulated previously and extends the effort further by adding prospect theory in the framework. Prospect theory is a relatively new concept in the field of psychology and has been developed by Kahneman and Tversky (1979). It is concerned with the behaviour of decision makers and views decisions subject to risk as a choice between alternative actions that are associated with particular probabilities (prospects) or gambles. Prospect theory, unlike much of psychology, has a solid mathematical basis and as such it has been popularised in economics. In addition, because it examines how decisions under uncertainty are actually made it also has descriptive properties in comparison to the economics-based utility theory, which is prescriptive in its approach, and hence strategic management has equally adopted it.

Thus the third study is closer to behavioural sciences and it has an in-built cognitive element to it. In particular, the paper introduces a three-dimensional framework entitled the strategic reference point (SRP) matrix. It argues that previous investigations have only used industry averages as a point of reference, whereas the SRP matrix considers simultaneously multiple points. Specifically it looks at three dimensions; internally to the firm's aspects (strategic inputs such as targets and capabilities and strategic outputs such as profitability and performance); externally to the firm's conditions (customers, shareholders and competitors); and time (past, present and future) orientations.

However, the work has a weak context because although these dimensions are seen as reference points, or benchmarks, the framework mostly resembles an outline for strategy development rather than a benchmarking model. Consequently, the study loses its focus, and benchmarking becomes implicit and very broad in the process. Thus despite the authors' claim that the SRP matrix addresses the contents of reference theory, it is controversial that it does so, because contents are the decision makers' actions which are the result of strategy development given the process and constraints of decision making. However, none of these variables are facilitated in the framework.

The fourth study (Shoham and Fiegenbaum, 2002) is again theoretical only, it is a clear continuation of the previous one (Fiegenbaum *et al.*, 1996) and, to a large extent, it visits former arguments. However, this time round, the paper draws more from prospect theory and hence it has an even stronger cognitive element to it and an institutional theory viewpoint. In addition, the SRP model is regarded as complementary to, or even the missing link, in the structure-conduct-performance (SCP) paradigm. Specifically, it is postulated that decision makers' reference points, or benchmarks, along the three dimensions of the SRP (internal, external and time) influence competitive strategy development. And, if according to managers' perceptions the company is in a worse-off position relative to competition, they formulate risk-assertive strategies whereas if the company is in a better-off position they formulate risk-aversive strategies. Consequently, this paper addresses the contents of reference theory more effectively in comparison to the previous study (Fiegenbaum *et al.*, 1996). As such, it is continued, the SRP model explains the factors that shape all SCP variables because organisational strategies (conduct) influence the dynamics of the industry (structure) and affect companies' performance. The latter is in line with Panagiotou (2006a), where in a different line of enquiry, managerial cognitions in the context of the SCP were investigated and the conclusions were similar.

Over time, with their various articles in the area Fiegenbaum and colleagues (Kumar *et al.*, 1990; Fiegenbaum and Thomas, 1995; Fiegenbaum *et al.*, 1996; Shoham and Fiegenbaum, 2002), have broadened the concept of benchmarking and with every new paper the topic came closer to cognition to the point that in the last study it is explicitly articulated that cognitive aspects are crucial in any such examination. However, the latter is also their biggest weakness since they have never actually investigated managerial cognitions in the field but rather this notion remained theoretical in their work.

Yet, Athanassopoulos (2003) ignored the deductive thinking of the literature in recognising the role and potential contribution of cognition on benchmarking and went back to the original mathematical viewpoint of the concept. Consequently, he introduced an investigation that involved the use of data envelopment analysis (DEA), which is a linear programming method, to examine firms' financial characteristics in the UK grocery industry from 1987 to 1993, in order to compose empirically derived groupings and evaluate firms' performance differences both within and in-between strategic groups for that period.

While such a technique has its merits, according to the author, the examination was influenced by reference theory. However, although some selective aspects of the theory have been discussed in the literature review of the paper, cognitive attributes have been ignored and the analysis concentrated on empirical results alone. In addition, in the investigation it was attempted to advance the properties of reference group theory by looking more closely at firms' production functions rather than just examine industry average profiles as past research did, in order to describe firms' operations strategies in the industry and thereby explain performance differences.

However, the SRP matrix (Fiegenbaum *et al.*, 1996) that addresses some of these aspects was not considered in the methodology neither it was discussed elsewhere in the paper. Instead, Athanassopoulos (2003) proposed a notion that he dubbed "efficient benchmarking" based on the design and estimation of production and cost functions that represent the effectiveness of firms' inputs into outputs derived from own judgements of the sampled firms' financial data. Thus turning the clock back to the time when Fiegenbaum and Thomas (1995) began to articulate the cognitive aspects of reference theory in order to unlock the limitations of empirical analysis alone.

The hard facts derived from scientific analysis can only go so far, and as López (2001) states, statistical application without theoretical justification is not valid enough. Yasin (2002), from the mainstream benchmarking area, also concurs and states that the earlier stages of benchmarking development stressed a process and/or activity orientation and despite the recent advancements in the field the area of benchmarking suffers from the lack of theoretical developments which are badly needed to guide its multi-faceted applications.

Evidently, the papers reviewed in this investigation are in accordance with Yasin's (2002) point of view, since the articles written by Kumar *et al.* (1990) and Athanassopoulos (2003) are activity-oriented, the articles written by Fiegenbaum *et al.* (1996) and Shoham and Fiegenbaum (2002) are process-oriented and the article written by Fiegenbaum and Thomas (1995) is both activity- and process-oriented. Hence, collectively the articles in the area suggest the need for additional theoretical integration in order to enrich the body of knowledge on benchmarking and broaden understanding of the factors that shape competitive landscapes, by linking individuals' cognitions in the context of the organisation with industry-level dynamics.

Hypotheses

In line with the gaps identified in the literature, this study adopts a cognitive perspective and investigates the hypotheses shown below. Given the arguments presented thus far, it is believed that this research is consistent with existing theoretical literature on the subject matter, and is believed to be a logical and relevant extension of the literature on the topic:

H1. Members of the same strategic group consider their group as a reference (benchmarking) point in their decision-making process.

H2. Members of the same strategic group adjust their strategic behaviour towards their group reference (benchmarking) point.

H3. Members of the same strategic group are more likely to respond to market conditions and events in a similar manner.

H1 and *H2* have been adopted from Fiegenbaum and Thomas (1995) because they are central to this type of investigation. However, in comparison to the former study that has conducted secondary research only and adopted quantitative techniques in the analysis, this study examines these hypotheses through primary research and uses qualitative techniques in the analysis. *H3* has not yet been investigated in the field.

Consequently, an attempt is made to address the contents of reference theory directly. Specifically, *H1* and *H2* seek to examine managers' cognitions on benchmarking and evaluate the effect of these on decision making and strategy development in the context of strategic groups. *H3* attempts to incorporate an element of prediction in the framework in order to provide additional insights in the literature of the area.

This is achieved by investigating two significantly different and distinctive strategic groups in the UK mainstream foreign package holiday industry; the internet-based new entrants (dotcoms) and the large incumbent firms, known as the "Big Four" (My Travel, TUI/UK, Thomas Cook AG and First Choice).

Research methodology and field approach

The study is based on primary methodology and it involves face-to-face interviews at the respondents' place of work having adopted Kelly's (1955) Repertory Grid from the Personal Construct Theory of the Minimum Context Form methodology, employing a dyadic approach of presenting competitors to the participant. For a good overview of the Repertory Grid technique visit Easterby-Smith *et al.* (1996). A semi-structured questionnaire (see the Appendix, Figure A1) was also administered in the process, to ensure the relevance and consistency of the data collected. A clear advantage of a face-to-face approach when interviewing, is that a better rapport between the interviewer and the interviewee can be established and that the interviewer can explain the essence of each question better to the respondent should the respondent wish, thus ensuring the absolute clarity of questions and answers on the day. Respondents' answers have been recorded on a tape recorder and transcribed for easy reference.

Each interview lasted about 1 hour and 15 minutes. The type of research is cross sectional and the aim of the research was to achieve census in terms of the sample size of this study (i.e. investigate all firms in the population of this study). The research has taken place from March to August 2003.

When identifying the population, the "Big Four" group did not pose any difficulties since it is easily identifiable in the industry. However, identifying the internet-based new entrants' group was a painstaking exercise in order to ensure that all relevant players were identified and included in the sample and involved a great deal of secondary research. Given the fact that most companies in the industry have, in time, adopted the internet, developed their own web site(s) and began to implement clicks and mortar strategies, careful attention was paid when selecting the players in the industry to ensure that they qualify to be included in the frame. To that end, only those companies that have entered the market through the internet have been selected regardless of their nationality or point of origin, or the fact that they may belong to a parent organisation – given that the strategic business unit (SBU) meets the criteria of this study. The parameters of the frame included only those companies that operate in the UK mainstream foreign package holiday industry and have a licence to sell leisure package holidays. A prerequisite was that all firms had to have a transactional website. Those who have entered the industry but later on suspended operations have been excluded, but those who, in the meantime, have been acquired by or merged with others in the UK with transactional web sites are included. All specialist firms who are not in the mainstream package holidays have also been excluded. When the list was deemed to be satisfactory verification was received through industry experts, at the pilot stage of this research, to ensure effectiveness. As a result, minor modifications were made before finalising the sample size.

Consequently, firms from that set were presented randomly to the participants in the dyadic approach of the Repertory Grid. Such a method is appropriate when the intent is to ensure compliance with the parameters of the research (Easterby-Smith *et al.*, 1996), or safeguard the context of the hypotheses (Reger, 1990), as was the objective in this study. However, it was left to the respondents to identify and describe differences or commonalities between these firms and group them according to their perceptions without any interference from the researcher. Clearly, a potential issue when supplying firms to respondents is that they may have limited knowledge about some of these companies and hence have difficulties in recognising differences or similarities between them. However, given that the participants of this research were top managers in their firms with responsibility in strategy development, this aspect did not pose any problems because they were all familiar with these players in their business environment. Attributes of competition identified by respondents have been recorded in terms of firms' structure, conduct and performance variables in order to achieve standardised areas in which to place the diverse participant feedback. The SCP framework (Mason, 1949; Bain, 1951, 1956) was developed in the area of IO in order to contextualise the competitive conditions of industries by examining how the underlying structure of an industry is related to, and affects the structure, conduct and performance of firms. Thus such a classification not only lends itself to the purpose, but it is the only way of doing so, given the fact that despite the diversity of respondent identification of competitive attributes when selecting competitors, all these well fall into the SCP categories (the Appendix, Table AI illustrates a range of potential SCP constructs).

An overall 79 per cent response rate, based on the census approach of this study was realised, which is in line with other studies on managerial cognitions in the field (for example, 35 per cent with 17 participants for Porac *et al.* (1989); 77 per cent with 23 participants for Reger and Huff (1993); 50 per cent with 24 participants for Daniels *et al.* (1994); 37 per cent with ten participants for Paton and Wilson (2001); 75 per cent with 32 participants for Daniels *et al.* (2002)). Dornier and Karoui (2003) interviewed seven directors in their study, but the percentage rate is unknown, since they did not reported it. In this study 26 companies participated from a total of 33 (it includes an aggregation of all "Big Four" multiple web sites to one SBU per each player) and provided 24 participants (some were responsible for more than one SBU in the same company). All respondents were involved in strategy formulation in their respective companies. Despite the adequacy of the sample, in order to compensate for its small size, the probability level (Bonferroni's adjustment) was set at 0.01 to give a 99 per cent level of confidence in results.

From the 24 participants, 19 were male and five female. A total of 19 held directorships and five were at managerial level. Four participants had three to five years of experience in the industry; four had six to ten years; ten had between 11 to 20 years; and six had over 21 years. Four participants were between the ages of 20 to 29 years; eight between 30 to 39 years; five between 40 to 49 years; six between 50 to 59 years; and one over 60 years. From the 24 participants, 20 completed Repertory Grids and all 24 provided answers for the questionnaire. Three interviews were only telephone-based without the use of the Repertory Grid, and during one face-to-face interview, only the questionnaire was administered because of the respondent's time constraint on the day. A total of 12 participants were from the "Big Four" group and 12 from the dotcom group. The equal representation of respondents was due to coincidence rather than design.

Analysis and discussion of findings

H1. *Members of the same strategic group consider their group as a reference (benchmarking) point in their decision-making process*

The quantitative data collected for this hypothesis have been subjected to an independent samples one-tail *t*-test and a chi-square test for independence, using SPSS version 11. The qualitative data collected have been subjected to content analysis and presented in the form of tabulations. All 24 participants provided data for this hypothesis. In order to keep the text in manageable proportions, only the descriptive statistics of the tests are presented here because they are then used to generate further discussion. Of course, all the results are reported in full.

The results of the t-test indicated that there were no significant differences in scores between respondents of the two strategic groups ("Big Four", $M = 6.00$, $SD = 0.953$; Dotcoms, $M = 6.00$, $SD = 1.758$; $t = 0.000$, $p = 1.000$). Given the total agreement between respondents from either group ($t = 0.000$), the eta squared is not computable, suggesting widespread practice in the industry. Table I shows the group statistics of the test.

However, in order to explore this hypothesis in greater depth the coefficients of variation have also been calculated to show the actual extent of such practice between respondents from the two strategic groups. It was found that the level of agreement between the "Big Four" is 84.12 per cent (coefficient of variation 15.88 per cent) and between the dotcoms is 70.70 per cent (coefficient of variation 29.30 per cent), indicating that the "Big Four" are more cohesive in their approach whereas the dotcoms appear to be more flexible. The two groups' benchmarking reference points were also extracted from the respondents' completed Repertory Grids and summarised in frequency tables. It was found that the "Big Four" group benchmark against their own group by 100 per cent with TUI/UK (formerly known as Thomson Holidays) being undoubtedly the centre, or leader, of the group. In addition, half of the "Big Four" respondents (50 per cent) were also looking at the dotcoms group and some (20 per cent) were equally alerted to the low cost carriers because they perceived them as potential new entrants in their industry in the future, thereby observing their actions. The dotcom group have an even wider approach. It was found that they, too, benchmark against members of their own group by 100 per cent with Expedia.com being undoubtedly the centre, or the leader, of the group. However, most also benchmark against the "Big Four" group (80 per cent) as well as the low cost carriers (40 per cent) for the same reasons as the "Big Four" do.

The full extent of such benchmarking practice between participants was also assessed by subjecting the data to a chi-square test for independence by converting participants' quantitative responses to dichotomous variables as shown in Table II.

The Continuity Correction[1] (a 2×2 table) was 1.000, with an associated significance level of 1.000, indicating the same widespread practice between groups, as was also found in the previous t-test. Although it was not necessary to conduct the chi-square test as well, it was desirable to view the percentage levels of agreement or disagreement between respondents in the manner presented by this test, in order to assist non-statistically oriented readers to equally understand the results. These are illustrated in Table III.

Thus seeing the percentage levels of agreement between all respondents (95.8 per cent overall), it is clear that benchmarking among members of the same strategic group is a widespread practice, for all the reasons given below:

> It is a "sense" check probably. That's why we do it.
>
> Essentially we do a lot of benchmarking. We benchmark against all of our direct competitors.

	Strategic groups	n	Mean	Group statistics Std deviation	Std error mean	Coefficient of variation[a] (%)
Employs benchmarking in own strategic group before formulating strategies	"Big Four"	12	6.00	0.953	0.275	15.88
	Dotcoms	12	6.00	1.758	0.508	29.30

Note: [a] The coefficients of variation have been added manually (standard deviation/mean) because the test does not provide such calculations as a standard part of the analysis

Table I. Level of benchmarking within strategic groups

Strongly disagree	Moderately disagree	Somewhat disagree	Ambivalent	Somewhat	Moderately agree	Strongly agree
1	2	3	4	5	6	7
	No				Yes	

Table II.

Table III.
Respondent benchmarking agreement levels crosstabulation

Employs benchmarking in own strategic group before formulating strategies		Strategic groups "Big Four"	Dotcoms	Total
Yes	Count	12	11	23
	Expected count	11.5	11.5	23.0
	% within strategic groups	100.0	91.7	95.8
	% of total	50.0	45.8	95.8
No	Count	0	1	1
	Expected count	0.5	0.5	1.0
	% within strategic groups	0.0	8.3	4.2
	% of total	0.0	4.2	4.2
Total	Count	12	12	24
	Expected count	12.0	12.0	24.0
	% within strategic groups	100.0	100.0	100.0
	% of total	50.0	50.0	100.0

Because with any one thing, you want to see how far you can push it. Yeah, so you benchmark to get the maximum in everything that you do.

Because is important to see what's been done in whatever area you hope to learn from any benchmarking that you do. So you look at companies that have done things well and look at companies that haven't done things very well and, then you formulate your own way of doing it.

You know there's only a few fish in the pond and if you want more than your fair share … then, it's knowing how much other people got … and, it's a value creation story.

I think because it's a highly competitive industry and a very mature industry and, you need to understand your competitive set and what they are doing.

We would probably benchmark ourselves on financial measures as opposed to perhaps customer service measures and employee satisfaction measures … Although, we'll be trying to internally measure those things to see how we're doing between the companies in the group.

Before we didn't used to do it very much but now we believe that there are lessons to be learnt from others so we do … Yes.

Yes. Sure, because I feel it's important to sit and look at where you are in relation to the rest, and then decide.

The way we look at it is … look at the company that does it best first.

Before we launch a new product or invent a new journey we will go and literally see six to seen other firms.

We have to. Just to see what the others are doing and to make sure that we are more competitive.

We do weekly competitor analysis across the whole range of our competitors.

Yeah. Definitely. On a number of levels.

Yeah, yeah one does.

From the 24 participants only one from the dotcom group stated that it was not very keen on benchmarking but declined to make further comments.

Hence, given the findings, it can be concluded that members of the same strategic group consider their own group as a reference point in their decision-making process, as was also found by Fiegenbaum and Thomas (1995). This investigation equally supports Fiegenbaum and Thomas's (1995) suggestion that a potential way of extending the richness of existing models to reference theory is to look for evidence that the behaviour of the market leader is the reference point for all competitors – especially in markets where a dominant leader exists. This study has found this type of competitive behaviour. Within the strategic groups investigated, all respondents considered their group leader as their main point of reference. Of course, in the process, other competitors are also looked at, but the group leader seems to be attracting the weight of such activities as was found from the respondents' completed repertory grids and supported by their comments. Such a finding is also in line with the somewhat similar concept of barometric firm price leadership from oligopolistic theory, were it is argued that the price leader is the one whose prices believed to reflect market conditions in the most satisfactory way, or price benchmark, where firms adapt their prices to reflect the leader's changes. Respondents' comments likewise confirm this notion.

The industry life cycle (ILC) concept can be employed at this point to contextualise the findings. Firms that have formed a relatively new grouping and/or operate at the introductory or growth stages of their industry's life cycle, as in the case of the dotcoms, are more "open minded" and benchmark against a wider set of competitors in the industry because they have not yet fully allocated resources in specific courses of action and they are still trying to identify and establish segments and brands. Consequently, they are more flexible to pursue a wider avenue of strategies. Firms that are old and belong in established groupings that operate at the maturity or saturation stages of their industry's life cycle, as in the case of the "Big Four", are more restricted in their choices because key resource allocation has long taken place and repositioning strategies present numerous challenges. As such, they benchmark less outside their own group. However, they do so more if they feel threatened, in order to "keep an eye" on competition. One respondent stated that when their company wanted to increase the catering provision on board their aircraft they looked at how scheduled airlines developed that service, and also at supermarkets to see how they have improved the ingredients and packaging of their ready-to-eat meals. Thus it can be added, that at times, firms also benchmark against others in related and unrelated industries in order to "manage by analogy" should this be required by the changing conditions of the competitive landscape.

H2. *Members of the same strategic group adjust their strategic behaviour towards their group reference (benchmarking) point*

The quantitative data collected for this hypothesis were analysed with a Pearson product moment correlation coefficient (PPMCC) and a one-way between-groups multivariate analysis of variance (MANOVA). The qualitative data collected have been subjected to content analysis and presented in the form of tabulations. The PPMCC is illustrated in its entirety. However, to keep the text in manageable proportions, only the descriptive statistics of the MANOVA test are presented here because they are then used to generate further discussion. Of course, all the results are reported in full.

The PPMCC was conducted to identify the level of association between strategy formulation and benchmarking observations within strategic groups, as illustrated in Table IV. All 24 participants provided data for the first variable, but two participants declined to comment on the second. Preliminary analyses were performed to ensure no violation of the assumptions of normality, linearity and homoscedasticity. The results showed that there is a positive correlation between the two variables ($r = 0.605$, $p < 0.05$), indicating that high levels of benchmarking are carried out and that similar strategies between players in the same strategic group are formulated, as a result of it.

Despite the positive results of the PPMCC test, a MANOVA test was also performed to analyse the data more holistically. All 24 participants provided data for the first variable but two participants declined to comment on the second and third. The outcome is then compared against respondents' qualitative comments in order to search "beyond the figures" and develop a discussion that underpins the quantitative findings.

There where no violations noted on the preliminary assumption testing conducted for the MANOVA checking for normality, linearity, univariate and multivariate outliers, homogeneity of variance-covariance matrices and multicollinearity. The results indicated that there was no statistically significant difference between the two strategic groups on the combined dependent variables: $F(3, 18) = 1.004$, $p = 0.414$, Pillai's Trace (being more robust in a small sample) $= 0.143$, partial eta squared $= 0.143$. The descriptive statistics of the test are illustrated in Table V.

There were no differences even when the dependent variables were considered separately indicating that respondents carry out similar levels of benchmarking, formulate similar competitive strategies to reflect their own group's positioning as

Table IV. Association between strategy formulation and benchmarking observations within strategic groups

		Correlations: Employs benchmarking in own SG before formulating strategies	Correlations: Formulates strategies to compensate for benchmarking observations in own strategic group
Employs benchmarking in own SG before formulating strategies	Pearson correlation	1	0.605*
	Sig. (two-tailed)		0.002
	n	24	24
Formulates strategies to compensate for benchmarking observations in own strategic group	Pearson correlation	0.605*	1
	Sig. (two-tailed)	0.002	
	n	24	24

Note: * Correlation is significant at the 0.01 level (two-tailed)

Table V. Levels between strategy formulation and benchmarking observations within strategic groups

		Descriptive statistics			
	Strategic groups	Mean	Std deviation	n	Coefficient of variation[a] (%)
Employs benchmarking in own SG before formulating strategies	"Big Four"	6.20	0.919	10	14.82
	Dotcoms	6.00	1.758	12	29.30
	Total	6.09	1.411	22	23.16
Formulates strategies to compensate for benchmarking observations in own strategic group	"Big Four"	6.20	0.789	10	12.72
	Dotcoms	6.33	0.778	12	12.29
	Total	6.27	0.767	22	12.23
Feels that strategies of companies in own SG reflect similar activities	"Big Four"	6.40	0.516	10	8.06
	Dotcoms	5.83	1.030	12	17.66
	Total	6.09	0.868	22	14.25

Note: [a] The coefficients of variation have been added manually (standard deviation/mean) because MANOVA does not provide such calculations as a standard part of the analysis

a result of, and they feel that all others in their own strategic group do the same. The coefficients of variation highlight this even more. In the first variable the dotcom group appear to have a wider approach to benchmarking and be "open to suggestions" (29.30 per cent giving a 70.70 per cent level of agreement) relative to the "Big Four" that appear to be more cohesive in their perceptions (14.82 per cent giving a 85.18 per cent level of agreement), as was also found in the previous hypothesis. However, if this is viewed in relation to their next coefficient of variation, despite the previous finding that they are "open to suggestions" they appear to be holding on to their own group's positioning strategies when formulating their own firm's competitive strategies more than they want to admit explicitly (12.29 per cent giving an 87.71 per cent level of actual agreement). This, in fact, is even closer than the level of agreement between the "Big Four" group (12.72 per cent giving an 87.28 per cent level of agreement) on the same variable. The level of agreement between all respondents, when asked if they believed that their counterparts also develop similar strategies in their group as a result of their benchmarking observations, reached a high 85.75 per cent since their total coefficient of variation is 14.25 per cent. In particular, the "Big Four" agreed by 91.94 per cent (coefficient of variation 8.06 per cent) and the dotcoms by 82.34 per cent (coefficient of variation 17.66 per cent) suggesting, once again, that the older the grouping is in the industry the closer the member firms' strategies because of the similarities in their structural characteristics. Table VI illustrates respondents' comments of why they do so.

Therefore it can reasonably be concluded that members of the same strategic group adjust their strategic behaviour towards their group reference point, as suggested by Fiegenbaum and Thomas's (1995). However, this notion can be expanded further because it seems that the reference point is not necessarily only the group's leader but rather the group as a whole. Players from the group may well be following mostly the actions of the leader, but they also appear to be "borrowing" attributes from other group members, according to which company they perceive to be better on particular matters. Nevertheless, it is clear from the findings that the group is the members' reference point, one way or another.

Table VI.
Similarities of strategy formulation within strategic groups tabulations

In the light of benchmarking observations formulates such strategies to compensate for major identified gaps between own company and point of reference	Feels that strategies adopted within own cluster of companies reflect each other's competitive activities
"I suppose that's the point of doing it" "Yes, we do! We do respond accordingly" "Oh God. Yeah. Of course you do" "Yes we do. If we do have the ability we respond quickly. Some times though there are financial constraints that stop us from doing it the way that we would like to" "For areas that we are interested on, yes we do" "Certainly in the fairly recent past we were doing a lot of that, and maybe did too much of it... I think we are less intense on doing that now and making decisions that are right for us, but I'd still say its still quite a bit" "To a large extent, yes" "I think what we're doing is we're learning from other people, we're looking to see if there is any success from it ... We're not always jumping on our feet first but, sometimes we will ..." "Yes because it is important to keep up with competition" "Because we are aware of the fact that we need to keep up with the competition" "Because we want to be the first. Therefore if someone has a product or a service or functionality that we haven't got, we need to build it" "If necessary, yes" "Yes we do" "Well ... we try not to, but we are not ignorant ..." "Clearly we would do something about it"	"I Think that is what is happening, when you have a fairly homogeneous market with only a few players. You are at the mercy of their madness and if they do something you have to respond" "I think we do because we are trying to mirror each other effectively" "Because everybody follows everybody else; mine is bigger than yours, is the name of the game ..." "Because we all compete for the same customer, we've got similar propositions, our core business is the same, our cost bases are the same. Everything ..." "Well you've got to. All roughly pursue similar strategies" "You can't escape taking decisions in the context of it being extremely competitive.." "Some are, some aren't" "Because we are all doing similar things" "You can very quickly see that" "Yes, because we are all competing very much in the same space, selling unfortunately pretty much the same product types" "Despite our differences, on the whole we are quite similar" "I have lost count of the number of times that someone does something good, and then it spreads out like a virus" "Yes there are similarities" "It's amazing ... we are doing ... we're all doing the same things ..."

H3. *Members of the same strategic group are more likely to respond to market conditions and events in a similar manner*

This section extends the investigation into managerial practice further and seeks to identify whether firms of the same strategic group, as a result of their numerous commonalities, are more likely to respond to market conditions and events in a similar manner. The quantitative data collected were subjected to a one-way between-groups MANOVA and a chi-square test for independence. The qualitative data collected were subjected to content analysis and presented in the form of tabulations. To keep the text in manageable proportions, only the descriptive statistics of the MANOVA test and the cross tabulation table from the chi-square test are presented here because they are used to generate further discussions. Of course, all the results are reported in full.

Preliminary assumption testing conducted for the MANOVA test checking for normality, linearity, univariate and multivariate outliers, homogeneity of variance-covariance matrices and multicollinearity, noted no violations. The results indicated that there was no statistically significant difference between the two strategic groups on the combined dependent variables: $F(2, 18) = 2.719$, $p = 0.093$, Pillai's Trace (being more robust in a small sample) = 0.0232, partial eta squared = 0.0232. There were no differences even when the dependent variables were considered separately, indicating that all respondents agree about members' similarities of current strategies and likelihood of responsiveness in the same manner to both current and future competitive challenges. From the sample of 24 participants, 22 provided data for the first variable and 23 provided data for the second. Table VII illustrates the descriptive statistics of the test.

The finding that member firms' strategies reflect each others' competitive activities was established in the tests conducted for the previous hypothesis and already discussed. The important result, at this time, is that respondents with a high probability feel that firms belonging to the same strategic group are also likely to respond similarly with each other to future competitive challenges. The level of agreement between participants is highlighted better through their coefficients of variation. The "Big Four" agree between them by 87.91 per cent (12.09 per cent coefficient of variation) that this will be the case. The dotcom group agrees by 77.95 per cent (22.05 per cent coefficient of variation) to such an eventuality too, which for them, is quite high given their efforts to define their brands, enter selected niches and achieve a level of differentiation between each other. Although it was not necessary to conduct the chi-square test as well, it was desirable to view the percentage levels of agreement or disagreement between respondents in the manner presented by this test, for the same reasons explained previously. The Continuity Correction (a 2×2 table) was 0.009 with an associated significance level of 0.926, indicating a high likelihood of firm similarities in responsiveness to future competitive challenges. In fact, the level of agreement between the "Big Four" reaches 100 per cent and the dotcoms 90 per cent, making a 95.5 per cent overall agreement between respondents. These are illustrated in Table VIII.

In addition, these quantitative results have been compared against a period of high density of rivalry between the "Big Four" during a time of intensive acquisitions in the industry in 1998 and 1999, in order to compare and contrast the high levels of respondent intent found in this study against firm actions that have already taken place. In this way, an effort is made to identify a match between respondent comments regarding future responsiveness relatively to past behaviour, based on realised events. The comparison only takes place in the "Big Four" group because of data availability

		Descriptive statistics			
	Strategic groups	Mean	Std deviation	n	Coefficient of variation[a] (%)
Feels that strategies of companies in own SG reflect similar competitive activities with each other	"Big Four"	6.40	0.516	10	8.06
	Dotcoms	5.73	1.009	11	17.60
	Total	6.05	0.865	21	14.29
Believes that SG companies will respond in a similar manner in future challenges	"Big Four"	6.10	0.738	10	12.09
	Dotcoms	5.36	1.206	11	22.05
	Total	5.71	1.056	21	18.49

Note: [a] The coefficients of variation have been added manually because MANOVA does not provide such calculations as a standard part of the analysis

Table VII.
Beliefs of current competitive strategies and future responsiveness

Table VIII. Likeness of responsiveness to future challenges from companies within the same strategic group crosstabulation

Strategic groups		Believes that SG companies will respond in a similar manner in future challenges Yes	No	Total
"Big Four"	Count	12	0	12
	Expected count	11.5	0.5	12.0
	% within strategic groups	100.0	0.0	100.0
	% within believes that SG companies will respond in a similar manner in future challenges	57.1	0.0	54.5
	% of total	54.5	0.0	54.5
Dotcoms	Count	9	1	10
	Expected count	9.5	0.5	10.0
	% within strategic groups	90.0	10.0	100.0
	% within believes that SG companies will respond in a similar manner in future challenges	42.9	100.0	45.5
	% of total	40.9	4.5	45.5
Total	Count	21	1	22
	Expected count	21.0	1.0	22.0
	% within strategic groups	95.5	4.5	100.0
	% within believes that SG companies will respond in a similar manner in future challenges	100.0	100.0	100.0
	% of total	95.5	4.5	100.0

Note: From the sample of 24 participants, 23 provided data for this variable, of which one provided an ambivalent comment (4 on the set of ranks)

since they are established in the industry and tried over a long period of time, whereas data for the dotcom group are not yet readily available in that context, since they are still to be tested by challenges in the competitive terrain. Clearly, although, some of the players in the industry may not be the same in the future and past actions do not necessarily guarantee future similarity, the comparison does provide an indication because the prevalent characteristics among strategic groups remain the same.

When Thomson Holidays initiated the first acquisition in the industry all other members in the group followed suit. Although, such acquisitive strategies have had a positive effect on market shares and overall revenues, they have also created numerous challenges for all players in the group in a very similar way. Yet, the same set of strategies continued by all, even when they began to realise the problems they were creating for themselves in the future. For example, at the beginning, players' revenues increased because of the contribution of the newly acquired companies. However, at the same time, their organisational structure was weakening because of the many intercultural differences between acquired companies and parent organisation. Given the fast pace of such acquisitive strategies, integration became problematic and created structural issues. This, in turn, has affected levels of performance and has also diluted the parent company's brand. Consequently, attention was given to internal affairs and, in the process of rationalisation, further restructuring has taken place which has led to further diminishing of cash reserves. As a result, managers' attention was being diverted from "keeping an eye" on competition and they were late to respond to the dotcoms' entry in the market. This gave the dotcoms an opportunity to establish themselves without too much retaliation from the big incumbent firms and thus gain market power in a very short period of time.

When respondents asked to comment on the reasons behind their actions during that period some of their answers included:

> Everyone else did the same thing at the same time.
>
> There was a lot of imitation between the "Big Four" at that time.
>
> There was a sense that if you weren't in you were going to be out in a big way.
>
> We had to follow others or we would have put our company into a competitive disadvantage. It was like a catch 22.
>
> Mine is bigger than yours, that's why. Things go like this all the time.
>
> Our company was responding to competition because otherwise it would have been left behind.

The comments below were provided by respondents, regarding possible reasons for similarity in responsiveness to future competitive challenges:

> Because like I said before we are in a "catch 22" situation and if one player from our group does something, then, then rest of us will follow. Plus, of course, we all operate in the same industry having similar tools in our disposal, serving the same markets. So, yes, the likelihood is that we would all respond in a very similar way.
>
> Oh yeah. The same answer as before. Mine is bigger than yours. Everybody's, you know, is trying to do the same thing.
>
> Yes. If you get up closely you'll see different systems, but looking at it from an industry perspective, they are going to do similar things because they have similar problems.
>
> Broadly speaking because we are shackled into the same asset bases . . . so we are going to respond similarly.
>
> Well . . . is difficult to say really, because different companies have different needs and stakeholders to satisfy. But, the main picture is the same. I will somewhat agree to that. But, different companies will respond in their own way and timing subject to their own motivations and constraints.
>
> Yeah, I think that there is an engrained way of doing business and I can't see how they are going to perhaps break out of that train of thought.
>
> Given our similarities, I'd say yes.
>
> Yes. If they've got any sense. You have to do that because everybody else is doing the same.
>
> I think because they will have to . . .
>
> I see the road being fairly as it is now.
>
> Because to date that's what happened.

> Though up to now players have been largely replicating each other, it may be that in the future they will follow different strategies more suitable to their circumstances.

> Yeah, I would definitely agree with that.

> To a degree yes, but it depends what their corporate objectives are.

> I think yes because they are operating in the same market place and they have similar challenges.

> Well ... Yes is probably the answer to that. Yes, I believe that this will be the case.

Thus, clearly, it can be concluded fairly confidently that members of the same strategic group are more likely to respond to current and future market conditions and events in a similar manner. Firms may respond somewhat differently to other firms in the group, and at different times, depending on resource allocation on current strategies and various other organizational constraints. However, it is relatively certain that firms from the same strategic group, in general, would respond similarly to current and future industry events and competitive challenges.

Conclusions and implications

This paper examined issues associated with benchmarking, in the context of strategic groups, having employed primary qualitative research strategies in order to add "fresh" data on a topic that so far has merely been investigated quantitatively through secondary sources alone. As such, it has initiated a much needed contents dimension on the topic to complement the activity and process-oriented only studies in the area. The research not only tested earlier propositions in order to accumulate more evidence in the field and enable better generalisations on the subject, but also it has expanded current theories in the area. In doing so, attention was placed on the individual that had been overlooked by previous examinations. Clearly, this is a key component in the development of theories because it is people who create business transactions and it is people who take business decisions and drive organisations. Therefore, the role of the individual cannot be ignored in any business setting. Finally, the study explored aspects not previously attempted in the field, thereby adding to the slim body of literature in the area in an effort to advance understanding of the topic further.

The findings highlight some important implications for management practice. It is clear that firms from the same strategic group face similar competitive challenges since they operate in the same market space. As such, these firms adopt similar competitive behaviour and create similar structures to support their strategies. Over time, because of the conjectures and benchmarking that takes place between them, players "borrow" each other's attributes in an effort to maintain their position within their strategic group. The result is the creation of an even more similar set of competitive characteristics that, by default, lead to similar levels of company performance since all have created a similar material reality with each other. Consequently, there is more imitation and less differentiation and price becomes the primary weapon against competition that, in turn, impacts on company profitability negatively.

The fact that managers of firms from the same strategic group share similar perceptions and that these differ from those managers of firms from another strategic group, also introduces a number of issues and implications. It suggests that, in time, managers from the same strategic group become alike in their thinking through interaction and cross influencing and form a "school of thought" that, subsequently, keeps them in the same frame of mind even if they were different at the beginning. This potentially has repercussions because they are locked into a similar way of thinking and practising and, over time, it may become harder for them to see outside the parameters of such boundaries. As a result, imitation becomes the group's norm and differentiation and creative thinking tailored-made to specific companies' needs are hindered. Consequently, there may be a danger of not recognising relevant threats and/or opportunities as and when they emerge in the wider competitive landscape, thus jeopardising the "alertness" and competitive performance of the firm.

Certainly, this was the case with the "Big Four" where in the early days of the internet, miscalculated the threat of new entry of the dotcoms in the market. In addition, they also misjudged them when they repositioned themselves in the foreign package holiday market. It is thus logical to assume that in order for companies to potentially counteract such an undesirable effect, and compensate for potentially "stale" thinking, they need to maintain diverse management teams and support them with recruits from other groupings and/or industries to ensure cross-fertilisation and creative thinking.

Limitations and further research

Any investigation has to employ a specific methodology, examine a specific set of hypotheses and carry out a specific level of analysis if the findings of the study are to be valid and measurable. However, these very strengths also create a set of limitations since the investigation takes place within these parameters. This study is no different. The only way to overcome such limitations is by carrying out further similar studies in the field in order to accumulate findings and develop a more complete picture of the topic under consideration.

This study examined issues associated with benchmarking in the context of strategic groups, in an effort to develop a contents dimension that was missing from the field since previous studies on the subject were either activity-oriented or process-oriented only. It is believed, that within the parameters of this research, all dimensions have been discussed adequately and that the findings shed light in an area that was under explored. However, it is recognised that more research is needed in order to build a stronger contents element on the subject.

The study investigated two specific strategic groups. Namely, the "Big Four" incumbent firms and the Internet-based new entrants in the UK foreign package holiday industry. Given that the foreign package holiday industry is already attracting a further set of new entrants, namely the low cost carriers (LCC), a fruitful direction for new research is to investigate either the "Big Four" v. the LCC, or the dotcoms v. the LCC, and/or all three groups together along the industry's life cycle. Equally, replicating this investigation in other industries would be beneficial in order to accumulate findings and achieve better generalisation of results.

Of course, the fact that all firms examined by this study have an international presence introduces an intriguing direction for further research on the topic. This could take the form of a comparative study between counterparts of the same organisation in different countries in order to examine the impact and effect of cross-country cultural similarities and differences of managerial beliefs within the same enlarged organisation.

Note

1. Yate's continuity correction is the appropriate technique to measuring a two-dimensional table (2 × 2). For example, when responses include a Yes/No answer. When responses include a third variable, for example Yes/No/Maybe, the table becomes three-dimensional (3 × 2) and Pearson's Chi-square is more appropriate to report in this case.

References

Athanassopoulos, D.A. (2003), "Strategic groups, frontier benchmarking and performance differences: evidence from the UK retail grocery industry", *Journal of Management Studies*, Vol. 4 No. 4, June, pp. 921-53.

Bain, J.S. (1951), "Relation of profit rate to industry concentration: American manufacturing 1936-1940", *Quarterly Journal of Economics*, Vol. 65, August, pp. 293-324.

Bain, J.S. (1956), *Barriers to New Competition*, Harvard University Press, Cambridge, MA.

Cool, K. and Dierickx, I. (1993), "Rivalry, strategic groups and firm profitability", *Strategic Management Journal*, Vol. 14, pp. 47-59.

Cool, O.K. and Schendel, E.D. (1988), "Performance differences among strategic group members", *Strategic Management Journal*, Vol. 9, pp. 207-23.

Cooley, C.H. (1964), *Human Nature and the Social Order*, Reprint, Schocken Books, New York, NY (originally published in 1902 by Charles Scribner's Sons).

Daniels, K., Johnson, G. and De Chernatony, L. (1994), "Differences in managerial cognitions of competition", *British Journal of Management*, Vol. 5, June, special issue, pp. S21-9.

Daniels, K., Johnson, G. and De Chernatony, L. (2002), "Task and institutional influences on managers' mental models of competition", *Organisation Studies*, Vol. 13 No. 1, pp. 31-62.

Dattakumar, R. and Jagadeesh, R. (2003), "A review of literature on benchmarking", *Benchmarking An International Journal*, Vol. 10 No. 3, pp. 176-209.

Dawson, E.M. and Chatman, A.E. (2001), "Reference group theory with implications for information studies: a theoretical essay", *Information Research*, Vol. 6 No. 3.

Dornier, R. and Karoui, L. (2003), "Cognitive strategic groups elicited by top managers working in similar organisations: which degree of homogeneity?", paper presented in BAM Conference, Harrogate, September.

Easterby-Smith, M., Thorpe, R. and Lowe, A. (1996), *Management Research: An Introduction*, Open University Press, Buckingham.

Ferguson, D.T., Deephouse, L.D. and Ferguson, L.W. (2000), "Do strategic groups differ in reputation?", *Strategic Management Journal*, Vol. 21, pp. 1195-214.

Fiegenbaum, A. and Thomas, H. (1990), "Strategic groups and performance: the US insurance industry, 1970-84", *Strategic Management Journal*, Vol. 11, pp. 197-215.

Fiegenbaum, A. and Thomas, H. (1995), "Strategic groups as reference groups: theory, modelling and empirical examination of industry and competitive strategy", *Strategic Management Journal*, Vol. 16, pp. 461-76.

Fiegenbaum, A., Hart, S. and Schendel, D. (1996), "Strategic reference point theory", *Strategic Management Journal*, Vol. 17, pp. 219-35.

Flavian, C. and Polo, Y. (1999), "Strategic groups analysis (SGA) as a tool for strategic marketing", *European Journal of Marketing*, Vol. 33 Nos 5/6, pp. 548-69.

French, R.J. and Raven, B. (1959), "The bases of social power", in Cartwright, D. (Ed.), *Studies in Social Power*, University of Michigan Press, Ann Arbor, MI, pp. 150-67.

Hatten, J.K. and Hatten, L.M. (1987), "Strategic groups: asymmetrical mobility barriers and contestability", *Strategic Management Journal*, Vol. 8 No. 4, pp. 329-42.

Hodgkinson, P.G. (1997), "Cognitive inertia in a turbulent market: the case of UK residential estate agents", *Journal of Management Studies*, Vol. 34 No. 6, pp. 921-45.

Hunt, M.S. (1972), "Competition in the major home appliance industry 1960-1970", unpublished PhD thesis, Harvard University, Cambridge, MA.

Hyman, H.H. (1942), "The psychology of status", *Archives of Psychology*, Vol. 269, pp. 5-91.

Kahneman, D. and Tversky, A. (1979), "Prospect theory: an analysis of decision under risk", *Econometrica*, Vol. XLVII, pp. 263-91.

Karnani, A. (1982), "Equilibrium market share – a measure of competitive strength", *Strategic Management Journal*, Vol. 3, pp. 43-5.

Karnani, A. (1984), "The value of market share and the product life cycle – a game theoretic model", *Management Science*, Vol. 30 No. 6, pp. 696-712.

Kelley, H.H. (1952), "Two functions of reference groups", in Swanson, G., Newcomb, T. and Hartley, E. (Eds), *Readings in Social Psychology*, Society for the Psychological Study of Social Issues, New York, NY, pp. 410-4.

Kelly, A.G. (1955), *The Psychology of Personal Constructs*, Vols 1 and 2, Norton, New York, NY.

Kumar, K.R. (1987), "The relationship between mixed strategies and strategic groups", *Managerial and Decision Economics*, Vol. 8, pp. 235-42.

Kumar, K.R., Thomas, H. and Fiegenbaum, A. (1990), "Strategic groupings as competitive benchmarks for formulating future competitive strategy: a modelling approach", *Managerial and Decision Economics*, Vol. 11, pp. 99-109.

Lawless, W.M. and Tegarden, F.L. (1991), "A test of performance similarity among strategic group members in conforming and non-conforming industry structures", *Journal of Management Studies*, Vol. 28 No. 6, pp. 645-64.

Leask, G. and Parker, D. (2006), "Strategic groups theory: review, examination and application in the UK pharmaceutical industry", *Journal of Management Development*, Vol. 24 No. 4, pp. 386-408.

López, E. (2001), "New anti-merger theories: a critique", *Cato Journal*, Vol. 20 No. 3, pp. 359-78.

McGee, J., Thomas, H. and Pruett, M. (1995), "Strategic groups and the analysis of market structure and industry dynamics", *British Journal of Management*, Vol. 6, pp. 257-70.

McNamara, M.G., Deephouse, D.L. and Luce, R.A. (2002), "Competitive positioning within and across a strategic group structure: the performance of core, secondary and solitary firms", *Strategic Management Journal*, Vol. 24 No. 2, pp. 161-81.

Ma Valle, S.A. (2004), "A broad study of the strategic group-performance relation: the movement of Spanish savings and loans across strategic groups", *Management Research News*, Vol. 27 Nos 11/12, pp. 46-69.

Mason, E.S. (1949), "The current state of the monopoly problem in the United States", *Harvard Law Review*, Vol. 62, pp. 1265-85.

Nair, A. and Kotha, S. (2001), "Does group membership matter? Evidence from the Japanese steel industry", *Strategic Management Journal*, Vol. 22, pp. 221-35.

Nohria, N. and Garcia-Pont, C. (1991), "Global strategic linkages and industry structure", *Strategic Management Journal*, Vol. 12, pp. 105-24.

Osborne, J.D., Stubbart, I.C. and Ramaprasad, A. (2001), "Strategic groups and competitive enactment: a study of dynamic relationships between mental models and performance", *Strategic Management Journal*, Vol. 22, pp. 435-54.

Panagiotou, G. (2005), "Managerial cognitions of competitive landscapes: a strategic group analysis", unpublished PhD thesis, University of Nottingham, Nottingham.

Panagiotou, G. (2006a), "The impact of managerial cognitions on the structure-conduct-performance (SCP) paradigm", *Management Decision*, Vol. 44 No. 3, pp. 423-41.

Panagiotou, G. (2006b), "Managerial cognitions of competitive environments: a strategic group analysis", *Management Research News*, Vol. 29 No. 7, pp. 439-56.

Paton, D. and Wilson, F. (2001), "Managerial perceptions of competition in knitwear producers", *Journal of Managerial Psychology*, Vol. 16 No. 4, pp. 289-301.

Peng, M.W., Tan, J. and Tong, T.W. (2004), "Ownership types and strategic groups in an emerging economy", *Journal of Management Studies*, Vol. 41 No. 7, pp. 1105-29.

Porac, J.F. and Thomas, H. (1990), "Taxonomic mental models in competitor definition, academy of management", *The Academy of Management Review*, Vol. 15 2, April, pp. 224-40.

Porac, F.J., Thomas, H. and Baden-Fuller, C. (1989), "Competitive groups as cognitive communities: the case of Scottish knitwear manufacturers", *Journal of Management Studies*, Vol. 26 No. 4, pp. 397-416.

Porter, M. (1980), *Competitive Strategy: Techniques for Analysing Industry and Competitors*, The Free Press, New York, NY.

Reger, K.R. (1990), "The repertory grid technique for eliciting the content and structure of cognitive constructive systems", in Huff, S.A. (Ed.), *Mapping Strategic Thought*, John Willey & Sons, Chichester, pp. 301-9.

Reger, K.R. and Huff, A.S. (1993), "Strategic groups: a cognitive perspective", *Strategic Management Journal*, Vol. 14, pp. 103-24.

Shoham, A. and Fiegenbaum, A. (2002), "Competitive determinants of organisational risk-taking attitude: the role of strategic reference points", *Management Decision*, Vol. 40 No. 2, pp. 127-41.

Smith, G.K., Grimm, M.C., Wally, S. and Young, G. (1997), "Strategic groups and rivalrous firm behaviour: towards a reconciliation (research notes and communications)", *Strategic Management Journal*, Vol. 18, pp. 149-57.

Spendolini, M.J. (1992), *The Benchmarking Book*, Amacon, New York, NY.

Sudharshan, D., Thomas, H. and Fiegenbaum, A. (1991), "Assessing mobility barriers in dynamic strategic groups analysis", *Journal of Management Studies*, Vol. 28 No. 5, September, pp. 429-38.

Turner, R. (1955), "Reference groups of future orientated men", *Social Forces*, Vol. 34, pp. 130-6.

Weick, E.K. (1979), *The Social Psychology of Organising*, Addison-Wesley, Reading, MA.

Weick, K.E. (1995), *Sensemaking in Organisations*, Sage Publications, Beverly Hills, CA.

Yasin, M.M. (2002), "The theory and practice of benchmarking: then and now", *Benchmarking An International Journal*, Vol. 9 No. 3, pp. 217-43.

Further reading

Fiegenbaum, A., Sudharshan, D. and Thomas, H. (1987), "The concept of stable strategic time periods in strategic group research", *Managerial and Decision Economics*, Vol. 8, pp. 139-48.

Hatten, J.K. and Schendel, D.E. (1977), "Heterogeneity within an industry: firm conduct within the US brewing industry 1952-1971", *Journal of Industrial Economics*, Vol. 26 No. 2, pp. 97-113.

Appendix

1. What do you believe to be the current competitive challenges in the UK foreign package holiday industry? How did you arrive at this conclusion?

2. Which of these competitive challenges do you consider are likely to impact future decision-making? How did you arrive at this conclusion?

3. Key Factors for Success (KFS) also known as Critical Factors for Success (CFS) are the 'rules of the game' in an industry. As such they are external to the organisation and are common to all competitors in that industry. Their correct identification enables companies to formulate more effective competitive strategies in their industry. Which do you consider to be such KFS in the UK Foreign Package Holidays Industry? How did you arrive at this conclusion?

4. What do you feel has made you have the understanding that you currently have about competitive challenges in the UK foreign package holiday industry?

5. As a manager when formulating structural or competitive strategies for your company, do you find yourself being somewhat influenced by information available in the public domain about competitive challenges in your industry?

Strongly disagree	Moderately disagree	Somewhat disagree	Ambivalent	Somewhat agree	Moderately agree	Strongly agree
1	2	3	4	5	6	7

Why/why not do you feel this is?

6. What sources of reference constitute information available in the public domain of the industry?

7. When deciding to formulate/re-formulate company strategies (i.e. company structure and/or respond to competitive challenges in your industry) what do you feel are the contributing factors for such a direction?

8. As a manager when re-formulating structural or competitive strategies for your company, do you find yourself being somewhat influenced by information available in the public domain about competitive challenges in your industry?

Strongly disagree	Moderately disagree	Somewhat disagree	Ambivalent	Somewhat agree	Moderately agree	Strongly agree
1	2	3	4	5	6	7

Why/why not do you feel this is?

9. Do you feel that you as a decision-maker share similar perceptions about competitive challenges in your industry with those of your counterparts in your strategic group?

Strongly disagree	Moderately disagree	Somewhat disagree	Ambivalent	Somewhat agree	Moderately agree	Strongly agree
1	2	3	4	5	6	7

Why/why not do you feel this is?

10. Do you believe that there are commonalities in perceptions among similar level executives in similar type of companies about competitive challenges in your industry?

Strongly disagree	Moderately disagree	Somewhat disagree	Ambivalent	Somewhat agree	Moderately agree	Strongly agree
1	2	3	4	5	6	7

Why/why not do you feel this is?

11. What do you believe to be the major similarities between your company and the ones like it in your own strategic group?

(continued)

Figure A1.
Face-to-face semi-structured questionnaire

12. What do you believe to be the major differences between your company and the ones like it in relation to the opposite strategic group?

13. Do you believe that there are any similarities between the two strategic groups?

14. When formulating competitive strategies for your company, before you reach a final decision, do you employ any benchmarking activities (mental, formal or informal) against other companies in the industry?

Strongly disagree	Moderately disagree	Somewhat disagree	Ambivalent	Somewhat agree	Moderately agree	Strongly agree
1	2	3	4	5	6	7

If yes, why do you do that? Are this/these companies the same every time?

15. In the light of your benchmarking observations (if any), do you formulate such strategies to compensate for major identified gaps between your company and your point of reference?

Strongly disagree	Moderately disagree	Somewhat disagree	Ambivalent	Somewhat agree	Moderately agree	Strongly agree
1	2	3	4	5	6	7

Why/why not?

16. Do you feel that strategies adopted within your cluster of companies reflect each other's competitive activities?

Strongly disagree	Moderately disagree	Somewhat disagree	Ambivalent	Somewhat agree	Moderately agree	Strongly agree
1	2	3	4	5	6	7

Why do you feel this is?

17. Given the answers that you have provided to the other questions so far, do you feel confident in saying that managerial cognitions about the competitive environment and competitive challenges affect strategy formulation and thus have a direct (positive or negative) impact on company performance and profitability?

Strongly disagree	Moderately disagree	Somewhat disagree	Ambivalent	Somewhat agree	Moderately agree	Strongly agree
1	2	3	4	5	6	7

Why/why not do you feel this is?

(Questions 18 and 19 are only relevant for the ("Big Four"). Question 20 is for both groups).

18. In the 1998 and 1999 intense period of known acquisitions among the "Big Four" what has made your company pursue such acquisitions?

19. In the period 1998-2000 where the Internet-based new entrants appeared to be gathering power in the travel market, have you perceived these companies to be a potential business threat? Why/why not? How did your company respond to this competitive challenge?

20. Given the companies that you have classified as similar in your own strategic group, do you believe that these firms are likely to respond to similar future market conditions, events, and competitive challenges in a similar manner?

Strongly disagree	Moderately disagree	Somewhat disagree	Ambivalent	Somewhat agree	Moderately agree	Strongly agree
1	2	3	4	5	6	7

Why/why not do you feel this is?

21. Is there anything that you would like to ask or add?

End of Questions

Figure A1.

Structure			
✓	Large organisation/company	–	Small organisation/company
✓	International presence/markets	–	National presence/markets
✓	Clicks and bricks	–	Only clicks or bricks
✓	Product/service homogeneity with rival firms	–	Product/service heterogeneity with rival firms
✓	Owned by a parent company	–	Independent company
✓	Low operating expenses	–	High operating expenses
✓	Direct & indirect sales channels	–	Only direct or indirect sales channels
✓	Public company	–	Not a public company
✓	Has "dynamic packaging"	–	Does not have "dynamic packaging"
Conduct			
✓	Fully integrated	–	Not so fully integrated
✓	Large presence of own retail outlets	–	Small presence of own retail outlets
✓	Broad range of holiday products	–	Narrow range of holiday products
✓	Differentiated strategies	–	Focused strategies
✓	Expansion through acquisitions	–	Expansion through organic growth
✓	Retail outlets at prime locations	–	Retail outlets at secondary locations
✓	Has a number of alliances, networks, partnerships, etc.	–	Has fewer alliances, networks, partnerships, etc.
✓	Proactively developing new products, services, experiences	–	Reactively developing new products, services, experiences
✓	Price competitive	–	Non-price competitive
✓	Diversified	–	Non-diversified
✓	Ability to respond effectively to rivals' moves	–	Limited ability to respond effectively to rivals' moves
✓	Ability to respond effectively to market changes	–	Limited ability to respond effectively to market changes
✓	Access to key resources and distribution channels	–	Limited access to key resources and distribution channels
✓	Large volume of advertising	–	Lower volume of advertising
✓	More expensive holiday products than rivals	–	Less expensive holiday products than rivals
✓	Capable company	–	Less capable company
✓	Strategically focused	–	Less strategically focused
✓	Expensive holiday products	–	Cheap holiday products
✓	Frequently offering late/cheap deals	–	Infrequently offering late/cheap deals
✓	Frequent advertising	–	Infrequent advertising
✓	Proactive market approach	–	Reactive market approach
✓	Competitive	–	Less competitive
✓	Good customer service	–	Poor customer service
✓	Market/marketing driven	–	Product/production driven
✓	Possesses technology/know-how	–	Does not possess technology/know-how
✓	Price similarity with rivals	–	Price dissimilarity with rivals
✓	Has internet strategies	–	Does not have internet strategies
Performance			
✓	Large market share	–	Low market share
✓	Good earner performers	–	Low earner performers
✓	Reputable company	–	Less reputable company
✓	More efficient	–	Less efficient
✓	More profitable	–	Less profitable
✓	High brand strength	–	Low brand strength

Table AI.
Potential SCP categories

Corresponding author
George Panagiotou can be contacted at: g.panagiotou@londonmet.ac.uk