

# THE USE OF M. PORTER'S GENERIC STRATEGIES IN THE TURKISH APPAREL INDUSTRY AND STRATEGY PROPOSALS FOR COMPANIES

## TÜRK HAZIR GİYİM SANAYİNDE M. PORTER'IN JENERİK STRATEJİLERİNİN KULLANIMI VE FİRMALAR İÇİN STRATEJİ ÖNERİLERİ

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### ABSTRACT

The purpose of this study is to analyze the use of Porter's generic strategies in successful apparel companies and develop strategy proposals for Turkish apparel companies to create an advantage in international markets. A survey has been developed through the sources in literature to gather data in line with this purpose and competitive strategies of the apparel companies in the Top and Next Top 500 Industrial Enterprises ranking made by ISO each year have been analyzed. According to the findings obtained from the analyses, the most common strategy followed by Turkish apparel industry is the general cost leadership strategy. The Top and Next Top 500 rankings of ISO diverge in competitive strategies they follow. The most common competitive strategy followed by Top 500 companies in ISO ranking after the general cost leadership strategy is differentiation strategy.

**Key Words:** Apparel industry, Competitive strategy, M. Porter, Cost leadership, Differentiation.

### ÖZET

Bu çalışmanın amacı başarılı hazır giyim firmalarında M. Porter'in jenerik stratejilerinin kullanımını analiz etmek ve Türk hazır giyim firmalarının uluslararası pazarlarda üstünlük sağlanmaları için strateji önerileri geliştirmektir. Bu amaç doğrultusunda veri toplamak için literatürdeki kaynaklar yoluyla bir anket geliştirilmiştir ve İstanbul Sanayi Odası tarafından her yıl belirlenen İlk ve İkinci 500 Büyük Sanayi Kuruluşu listesinde bulunan hazır giyim firmalarının rekabet stratejileri analiz edilmiştir. Analizler sonucunda elde edilen bulgulara göre; Türk hazır giyim sanayindeki firmaların en yaygın olarak izledikleri rekabet stratejisi genel maliyet liderliği stratejisidir. ISO İlk 500 ve İkinci 500 sıralamasına girmiş firmaların izledikleri rekabet stratejisi açısından farklılıklar görülmüştür. ISO İlk 500'deki firmaların genel maliyet liderliği stratejisinden sonra en yaygın olarak izledikleri rekabet stratejisi farklılaştırma stratejisidir.

**Anahtar Kelimeler:** Hazır giyim sanayi, Rekabet stratejisi, M. Porter, Maliyet liderliği, Farklılaştırma.

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### 1. INTRODUCTION

In recent years the world apparel industry has been experiencing important changes with the effects of the globalization phase and facing fiercely competition. Accordingly, apparel companies need to be careful making strategic choices for gaining or retain competitive advantage.

The literature suggests that two main perspectives shape our understanding of strategy and strategic choices: The industrial organization (I/O) perspective (1,2) and the resource-based view (3-5). The I/O model asserts that the industrial environment that a firm acts in shapes the behaviors (strategies) of that particular firm and thus

dictates the general market performance of the firm in question (6). On the other hand Resource Based View puts forward a contrary idea. It states that any sustainable competitive advantage a firm in a given industry possesses is due to that firm's resources (7, 8).

Michael Porter's theory of generic competitive strategy which is cost leadership, differentiation and focus is unquestionably among the most substantial and influential contributions that have been made to the study of strategic behavior in organizations (9, 10).

Going through an important phase of changes with added impact from globalization, the world apparel industry is

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experiencing an increasing competition. Turkish apparel industry is an important industry branch within Turkish economy with employment and exports it provides. These all changes have seriously affected industry profitability, forcing apparel companies to adopt a variety of business strategies.

Although various studies have examined the application of Porter's strategies to different industries (11-17) few studies has examined to what extent the various strategic types are prevalent in the Turkish apparel industry and few studies has examined to develop a competition strategy. For that reason we aimed to find the answers of the questions below:

1. Which generic strategies are being followed by the apparel companies which are in Top and Next Top 500 Industrial Enterprises Ranking made by İstanbul Chamber of Industry?
2. Is there any difference between Top and Next Top 500 Companies Industrial Enterprises Ranking made by İstanbul Chamber of Industry?
3. Can we develop a competition strategy proposal for apparel companies with the successful companies' strategies (ISO 500)?

The main purpose of this study is to analyze the use of Porter's generic strategies in successful apparel companies (ISO 500 and Next ISO 500) and develop strategy proposals for Turkish apparel companies to create an advantage in international markets. For this purpose competitive strategies the successful apparel companies have been analyzed based on the Top and Next Top 500 Industrial Enterprises Ranking made by İstanbul Chamber of Industry each year. Additionally, data has been gathered on the practices the companies use in competition.

The rest of this paper is set out as follows. The next section provides a brief review of literature relating to competitive strategy. The third sections sets out the research methods of study. Discussion and conclusions are in the fourth section.

## 2. LITERATURE REVIEW

The primary objective of managers of profit seeking organizations is to maximize the performance of the firm over time. To obtain firm performance within the scope of sustainable competitive advantage, decisions on shaping firm's competitive strategies are one of the main issues for managers under firms' business level strategy (18).

Porter's (9, 10) generic strategy typology remains one of the most notable in the strategic management literature has dominated corporate competitive strategy for the last 30 years (17, 19). Porter (1980, 1985) argues that superior performance can be achieved in a competitive industry through the pursuit of a generic strategy, which he defines as the development of an overall cost leadership, differentiation, or focus approach to industry competition. If a firm does not pursue one of these strategy types, it will be stuck-in-the-middle and will experience lower performance when compared to firms that pursue a generic strategy (9).

*Cost Leadership:* The overall cost leadership strategy attempts to increase market share by emphasizing low cost relative to competitors. Firms aim to become the lowest cost

producers in an industry. This usually involves the "construction of efficient-scale facilities, rigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like R&D, service, sales force, advertising and so on (9, 20).

*Differentiation:* In a differentiation strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price (10). The strategy of differentiation requires that the firm either creates a product or provides a service that is recognized as being unique, thus permitting the firm to command higher-than-average prices. Because of the loyalty created for a brand, demand is price-inelastic, leading to higher profit margins for the manufacturer (21).

*Focus:* The third is a focus strategy, in which a firm concentrates on a particular group of customers, geographic markets, or product line segments. (22).

There are numerous studies about Porter's generic strategies. Kumar et al. identifies the strategic types in the hospital industry based on the hospital's use of Porter's generic strategies in their pure and hybrid forms. Results indicate that hospitals that follow a focused cost leadership strategy, in general, have superior performance on a variety of performance measures while hospitals that use a combination of cost leadership and differentiation perform the poorest (12). Yamin et al. examine the relationships among competitive strategy, competitive advantage, and organizational performance in their research (23).

Hlavacka et al. analyzes the Porter's generic strategies and their effect on performance in the context of the Slovak hospital industry (13). Tehrani discusses the impact of five types of competitive strategies (product differentiation, low cost, marketing differentiation, focus product differentiation, and focus low cost) on preeminent performance among sixteen segments of high-tech industries in the US and EU. The results indicate that the relationship between competitive strategy and performance depends on the geographies the firm operates in, since US firms that adopt product differentiation, low cost, and focus product differentiation had superior performance than others while in Europe only the low cost firms outperformed other firms.

Allen et al. investigates Japanese companies and identifies which strategy types (Porter's generic strategy) are being followed by the Japanese companies. Results show that Japanese companies are following only two strategies that could be identified as those Porter. A cost leadership strategy was the most frequently used strategy and the differentiation strategy were used the least (16). Yaşar examines the effect of competitive strategies on firm performance by considering value chain activities in Gaziantep carpeting industrial cluster.

## 3. RESEARCH METHODOLOGY

### 3.1. Sample

The sample frame for the study was derived from the database of the İstanbul Chamber of Industry's Top and Next Top 500 Industrial Enterprises 2009. Apparel

companies have been isolated in these lists. After eliminating other companies, 13 and 48 apparel companies have been determined in Top 500 Industrial Enterprises and Next Top 500 Industrial Enterprises lists respectively. The survey prepared to gather data has been initially e-mailed to these companies. Additionally survey was applied with face-to-face interview method.

11 apparel companies out of 13 from the Top 500 list and 24 out of 48 from the Next Top 500 have answered. A total of 172 surveys were collected with 59 from the Top 500 and 113 from Next Top 500. In total the survey was sent to 61 apparel companies and 35 have answered, which corresponds to 57.4% participation rate.

### 3.2. Data Collection and Scale Development

A survey has been used as a data collection tool for the research. The extent of participants agree (1 Absolutely disagree, 5 Absolutely Agree) to the expressions used to define competitive strategies employed by the companies were probed based on a Five-point Likert-type scale. This part contains 26 expressions. Expressions used in measuring competitive strategies in the research are developed using the research from authors; Yamin and et al, (1999), Beal (2000), Spanos and Lioukas (2001), Panayides (2003), Powers and Hahn (2004) and M.Porter(2008) and with consideration to the dynamics of the apparel industry (22-25). For organizing and conducting analyses of the data gathered by the survey form SPSS 18.0 statistics software was used.

### 3.3. Analyses and Findings

Sample characteristics of the apparel companies that participated the survey listed in Table 2. The table reveals that 34.3% are from Top 500 Industrial Enterprises while 65.7 % are from Next Top 500 Industrial Enterprises. 48.9 % of the companies employ less than 1200 employees. 83.6 % of the companies are operating for more than 15 years. This shows that these large corporations are also old.

Factor analysis has been used for determining competitive strategies. Factor analysis is a multivariable statistic method used widely, changing many correlated variables to factors

that are low in numbers, independent and significant (26). High number of expressions on the components of competitive strategies diminished the number variables in the exploratory factor analysis.

The scale based on literature for measuring competitive strategies consist of 26 expressions. After the factor analysis, Bartlett test result was found to be 1613.25, which is significant at  $p=0.0000$  level. Kaiser-Meyer-Olkin (KMO) sample sufficiency value was 0.81. The sample is found to be sufficient (KMO=0.81) and suitable for factor analysis ( $P=0.0000$ ) (Values obtained reveal that data set is suitable for factor analysis.)

In order to attain factors in the analysis that can be commented on, factor rotation is used. One of the most common rotations is the Varimax rotation. Varimax rotation Principal Components Analysis method has been used in the Analysis. Factors with loads under 0,40 and covariance (communality) below 0,50 were not taken into account and factors were reduced when differences in articles attributed to factors exceed 20. Consequently 1 item has been removed and remaining 25 were observed to cluster around four dimensions. These dimensions comply with known strategies in literature such as differentiation, cost leadership and focusing while cost leadership strategy is clustered around two dimensions rather than one in accordance with the answers provided by the participants. Expressions included by these two sub dimensions have been studied and they are found to be general and production cost leadership. It has been found to be significant to gather questions on focusing (Q6) and differentiation (Q25 and Q23) under separate factors. Despite the researchers opinion that expressions on quality are an element of differentiation the participants are observed to consider the expressions on quality as an element of cost leadership. Results of the factor analysis scale on competitive strategies are presented in Table 1. In Table 1, first factor represents the values on differentiation while the second represents general cost leadership, third represents production cost leadership and the fourth represents focusing strategies. The first factor explains 26,45% of the total variance while the second explains 9,195%, third explains 6,690 and the fourth factor focusing explains 6,45% of the variance.

**Table 1.** Characteristics of the apparel companies that participated the survey

	Company Count	Percentage
<b>Company Rank (ISO)</b>		
Top 500	59	34,3
Next Top 500	113	65,7
<b>Size (No of Companies)</b>		
1-599	43	25,1
600-1199	41	23,8
1200-1799	37	21,5
1800-2399	24	13,9
2400-2999	5	2,9
3000-3599	8	4,7
3600 +	10	5,8
<b>Years of Operation</b>		
5-14	28	16,4
15-24	48	28
25-34	46	26,8
35-44	16	9,2
45-54	9	5,2
55-64	17	9,8
65+	4	2,3
<b>Foreign Partnership Situation</b>		
Yes	13	7,6
No	156	90,7

**Table 2.** Factor analysis results rotated using varimax method on competitive strategies scale

		Differentiation	General Cost Leadership	Production Cost Leadership	Focus
Q5	Our company tries to develop more collections or products compared to our competitors.	,795			
Q12	Our company makes original designs for the products it produces.	,740			
Q1	Our company develops new products faster than our competitors.	,700			
Q26	Our company creates customer loyalty with strong customer services.	,628			
Q16	Our company has a wide product range	,615			
Q15	We allocate a significant part of our budget to marketing efforts	,568			
Q8	Our company has a more variable product range.	,553			
Q14	Products of our company has higher added value	,538			
Q9	Customer services of our company is continuously developed	,528			
Q21	We always try to develop new strategies in marketing.	,491			
Q18	Our company performs promotion activities (fairs/advertisements/public relations actively)	,480			
Q24	Cost reports are prepared regularly and in detail in our company		,734		
Q2	Our company performs rigid cost and general expenses control.		,691		
Q4	Our company takes measures to increase operational efficiency continuously.		,673		
Q25	Our company improves product quality by continuously improving quality control methods in its production processes.		,655		
Q23	Quality issues of our customers are addressed promptly every time.		,655		
Q7	Our company tries to reduce costs in every procedure		,591		
Q22	Our company continuously invests in technology for the modernization of our current processes.		,521		
Q17	Our company produces in high volumes to decrease unit prices			,737	
Q13	Products that are easy to produce are designed in our company.			,603	
Q20	Our company aims to work full capacity at all times.			,551	
Q11	Our company follows a lower price policy compared to its competitors.			,465	
Q6	Organization structure of company has been adopted according to a single product group (i.e. denim jeans, shirts, etc.).				,731
Q3	Customers of our company are from different continents.				,739
Q10	Our company produces special products for its exclusive customers.				,523

Reliability analysis has been performed to determine the integral consistency of the data. Reliability of the scale depending on the Alpha ( $\alpha$ ) coefficient is interpreted as (27): Cronbach alpha coefficients of the scales of competitive strategies used in this study have high reliability with 0.87 for differentiation and 0.81 for general cost leadership. Production cost leadership and focusing strategy are also reliable with 0.69 and 0.61 alpha values respectively.

### 3.3.1. Differentiation of Company Competitive Strategies

Considered as a whole, cost leadership strategy (average 4.02; 3.50) is the most preferred competitive strategy of Turkish apparel companies participating the survey (Table 3). This strategy is followed by differentiation strategy (average= 3.67). On the other hand it is seen that Turkish apparel companies in Turkey do not use (average= 2.25) focusing strategy.

**Table 3.** Statistics of competitive strategies followed by Turkish apparel companies

Competitive Strategies		Avg.	Std. Dev.
Differentiation	Differentiation	3,67	,66
Cost Leadership	General Cost Leadership	4,02	,59
	Production Cost Leadership	3,50	,64
Focus	Focus	2,25	,81

In order to determine the differences between the companies, unbiased sample has been analyzed with a t-test. This test is used when comparisons should be made between the groups drawn from different universes. These groups shall have normal distribution, randomly drawn from different universes and observations should be independent.

**Table 4.** Strategies followed by Top 500 and Next Top 500

	Company Rank	N	Avg.	Std. Dev.	Std. Error	t	p
Differentiation	Top 500	59	3,93	,58	,07	3,94	,000**
	Next Top 500	113	3,52	,66	,06		
General Cost Leadership	Top 500	59	4,05	,47	,06	,34	,728
	Next Top 500	113	4,01	,64	,06		
Production Cost Leadership	Top 500	59	3,44	,65	,08	1,07	,286
	Next Top 500	113	3,55	,62	,06		
Focus	Top 500	59	2,09	,75	,09	1,57	,118
	Next Top 500	113	2,28	,77	,07		

\* p&lt;0,05

\*\* p&lt;0,01

As seen in the Table 4 the analysis showed that a significant difference has been found between the Top 500 and Next Top 500 with respect to differentiation strategies ( $t(164)=3,94$ ;  $p<,001$ ). Accordingly, Top 500 companies are found to agree with this expression while Next Top 500 companies are closer to undecided (average =3,93). No significant difference has been found between Top 500 and Next Top 500 companies with respect to cost leadership strategy ( $t(164)=0,34$ ;  $p>0,05$ ), ( $t(164)=1,07$ ;  $p>0,05$ ). Top 500 companies are observed to agree with the expressions of cost leadership strategy (average =3,52) and Next Top 500 companies are found to agree with (general cost leadership average=4,02, production cost leadership average=3,55). However, there was no significant difference between the Top 500 and Next Top 500 companies with respect to focusing strategy ( $t(164)=1,57$ ;  $p>0,05$ ).

Examining Table 5, detailed differences with respect to the expressions under differentiation strategies of companies

from Top 500 and Next Top 500 can be seen. The most common methods used by Top 500 companies for differentiation include; having a wider product range (average=4,22), high variety of product range (average=4,08), trying to develop more collections and products (average=4,07), improving customer relations continuously (average=4,05). The most important difference between the Top 500 and Next Top 500 companies is seen in producing their own original designs for their own products ( $t(170)= 4,366$ ;  $p<,001$ ). Top 500 companies (average=3,86) use this area for furthering their differentiation strategy compared to Next Top 500 (average=3,18) companies. The most important difference after this strategy comes to life in the expression of making active promotion activities (fairs/advertisement/public relations) ( $t(170)=4,07$ ;  $p<,001$ ). Top 500 companies (average=3,71) are observed to use promotional activities more intense than the companies in the Next Top 500 (average=3,05).

**Table 5.** t-Test for differences within the differentiation strategy element

	Company Rank	N	Avg.	Std. Dev.	Std. Error	t	p
Our company develops new products faster than our competitors.	Top 500	59	3,95	,70	,09	2,51	,013
	Next Top 500	113	3,62	,86	,08		
Our company tries to develop more collections or products compared to our competitors.	Top 500	59	4,07	,82	,10	2,60	,010
	Next Top 500	113	3,66	1,03	,09		
Our company has a more variable product range.	Top 500	59	4,08	,81	,10	1,99	0,48
	Next Top 500	113	3,77	1,06	,10		
Customer services of our company is continuously developed	Top 500	59	4,05	,77	,10	1,32	0,48
	Next Top 500	113	3,88	,84	,08		
Our company makes original designs for the products it produces.	Top 500	59	3,86	,91	,12	4,36	,000**
	Next Top 500	113	3,18	1,01	,09		
Products of our company has higher added value	Top 500	59	3,83	1,00	,13	2,82	,005*
	Next Top 500	113	3,39	,95	,09		
We allocate a significant part of our budget to marketing efforts	Top 500	59	3,71	,98	,12	1,89	,060
	Next Top 500	113	3,39	1,09	,10		
Our company has a wide product range	Top 500	59	4,22	,74	,09	2,49	0,13
	Next Top 500	113	3,82	,88	,08		
Our company performs promotion activities (fairs/advertisements/public relations) actively	Top 500	59	3,71	1,11	,14	4,07	0,01**
	Next Top 500	113	3,05	1,25	,11		
We always try to develop new strategies in marketing.	Top 500	59	3,80	,84	,11	1,15	0,252
	Next Top 500	113	3,61	1,08	,10		
Our company creates customer loyalty with strong customer services.	Top 500	59	3,97	,83	,10	2,96	,003*
	Next Top 500	113	3,57	,84	,07		

\* p&lt;0,05

\*\* p&lt;0,01

In Table 6, the Top 500 companies are divided into those with a brand and those who don't and differences between competition strategies of these companies have been developed. Top 500 companies with brands are different from the rest with respect to differentiation strategy ( $t(57)=2.32$ ,  $p<0.05$ ). It is safe to assume that companies with brands are more likely to follow differentiations strategy compared to other companies. With respect to production cost leadership, companies without brand follow this strategy more often and are different from companies with brands ( $t(57)=2.90$ ;  $p<0.05$ ). Both groups do not display any difference with respect to general cost leadership or focusing strategies.

#### 4. DISCUSSION AND CONCLUSIONS

In a globalized world to achieve sustainable competitive advantage has become a common goal of all companies. The findings from this study have contributed new knowledge to the literature of the apparel industry and Porter's generic strategy researches.

Turkish apparel industry is an important industry branch which contributes to our countries economy through creating jobs and exportation of the products. Under the globalization effect choosing the right strategy for companies is that will enable the companies to compete in the global arena is the major problem. And this research attempts to find out generic strategies followed by the apparel companies, the differences between Top and Next Top 500 Companies Industrial Enterprises Ranking made by Istanbul Chamber of Industry and to develop strategy proposals for apparel companies with successful companies' strategies.

In order to achieve these targets we have developed a survey that is involving questions about Porter's generic strategy typology (cost leadership, focus and differentiation).

According to the findings from the analyses the most common competitive strategy followed by the Turkish apparel industry is the general cost leadership strategy (Table 3).

As it is seen at Table 4 the companies in the ISO Top 500 and Next Top 500 ranking differ in the competition strategy they follow and the widest difference can be said to exist in following differentiation strategy ( $t(164)=3.94$ ;  $p<.001$ ). The most common strategy used by ISO Top 500 companies after general cost leadership is differentiation strategy. It can be said that neither top 500 nor next top 500 of ISO rankings follow focusing strategy. The companies in ISO

Top 500 having a brand most widely use differentiation strategy as competitive strategy. The survey also revealed that the companies try to differentiate by working on the process of design and collection development (Table 5). In addition to this survey shows that successful companies try to gain loyalty of their customers by establishing strong customer services (Table 5).

In line with the findings of the survey conducted and the literature research, Turkish Apparel Industry can be recommended to differentiate in marketing.

**Differentiation Strategy in Marketing:** Differentiation Strategy in general is making the product or service the company offers unique and privileged by differentiating the product or the service. For differentiation strategy in marketing we recommend to Turkish Apparel industry, differentiation strategy should be performed in the following areas.

**Differentiation Through Design and Developing Collection (New Product Development):** As it mentioned above and seen at Table 5, the most important difference between the Top 500 and Next Top 500 companies is seen in producing their own original designs for their own products ( $t(170)=4.366$ ;  $p<.001$ ). The process beginning with design in apparel industry and ends in a new product and this/these product/products play a major role in the success of the company in that season. Therefore the process of design and developing a collection (new product development) becomes an important part for the companies that will differentiate in marketing. With practice gained here, differentiation in design and collection development can be achieved through quick product development, high quality product development, product quantity and frequency.

**Service Differentiation:** At Table 5 it can be seen that successful companies try to gain loyalty of their customers by establishing strong customer services ( $t(170)=2.96$ ;  $p<.005$ ) "Our company creates customer loyalty with strong customer services". Service differentiation is another way for differentiation and is creating distinction with services of the product. Also companies with main goals in differentiating in marketing and stores should be the sound of the customer. At this stage differentiation can be achieved by differentiating either during the sale of the product or the services provided after the sale. Differentiation by service is an abstract concept and provides the company a competitive edge that is hard to copy. A source that is hard to copy provides an opportunity for a lasting superiority. Differentiation through service may basically begin with a customer relations department within the company.

**Table 6.** Competitive strategies followed by companies in the Top 500 according to owning brands

		Company Rank	N	Avg.	Std. Dev.	Std. Avg. Error	t	P
	Differentiation	Without Brand	32	3,77	,65	,11	2,32	,024*
		With Brand	27	4,12	,42	,08		
Cost Leadership	General Cost Leadership	Without Brand	32	4,01	,55	,09	,65	,517
		With Brand	27	4,09	,37	,07		
	Production Cost Leadership	Without Brand	32	3,65	,64	,11	2,90	,005*
		With Brand	27	3,18	,58	,11		
	Focus	Without Brand	32	2,26	,83	,147	1,92	,059
		With Brand	27	1,88	,59	,11		

\*  $p<0,05$

\*\*  $p<0,01$

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Differentiation through establishing a brand: Table 6 also reveals that companies with brands use differentiation more than other companies. Since the competition of today is mostly between brands, branding is one of the most strategic investments of any company. Considering all these qualities of the brand it is clear that most beneficial differentiation will be the one done through establishing a brand.

As a result it can be said as a proposal for Turkish apparel companies following differentiation strategy (design, service, brand) to achieve sustainable competitive advantage. In addition to this study for the further researches, resources of the company's competitive advantage can be analyzed for the sustainable competitive advantage resources.

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