

**Timing of Strategy Choice:
An Exploration of Industry Cycle, Strategy Choice, and Performance**

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(ABSTRACT)**

This study focuses on cyclical behavior in the restaurant industry, types of strategy choices made by the casual dining industry, and the use of the industry cycle to make a timing decision of strategy choice. The main idea of this study is that the phases of the industry cycle differently support a firm's strategy choice, so the use of the cycle allows firms to find the right time for a particular strategy choice.

This is done by developing and understanding of the restaurant industry cycle and determining the phase of the cycle that possesses different opportunities and threats. This is followed by identifying strategy choices adopted by casual dining firms through a content analysis. Next, a casual dining firm's responses to phases of the industry cycle are investigated. Using an individual firm's data regarding performance and the emphasis of strategy choice over the industry cycle, this study undertakes an investigation into whether the effect of a strategy choice adopted by a firm varies according to the phase of the restaurant industry cycle.

The results of the study revealed that the movements of the restaurant industry cycle have unique timing, duration, and amplitude, and that casual dining firms adopt thirteen distinct types of strategy choices. Firms change strategy choices to respond to change in the industry cycle phase. Summarizing these findings, the study found that the effects of strategy choices on firm performance differed according to the cyclical change of the industry environment so adjusting strategy choices over the industry cycle is critical to outperform competitors

This study aims at providing a relevant framework for using the industry cycle as a tool for well-timed strategy choices in the casual theme restaurant industry. In practice, by utilizing the industry cycle, executives would be better able to assess possible success or failure of a particular strategy at different phase of the industry cycle, and to determine the timing relevance as it relates to new investments or asset allocation. Managing the industry cycle allows firms to have an appropriate strategic portfolio to maximize their outcomes and sustain competitive advantage over long periods of time.

DEDICATION

I dedicate this work to my advisor, my mentor, and my boss, Dr. Michael D. Olsen.

*He has greatly influenced my way of thinking as well as my research and
has trained and helped me to improve my capabilities and
further hone my abilities as both a researcher and a teacher.*

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Table of Contents

CHAPTER ONE: INTRODUCTION	1
PROBLEM STATEMENT	2
<i>The Importance of Timing of Strategy Choice</i>	4
<i>The Use of Direct Source of External Environment</i>	5
UNDERLYING THEORIES	8
<i>Economic Cycle (Business Cycle)</i>	8
<i>Co-Alignment Principle</i>	11
PURPOSE OF STUDY	12
CONTEXT OF STUDY	13
<i>Current Status of the Casual Theme Restaurant Industry</i>	13
HYPOTHESIZED MODEL AND PROPOSITIONS	15
CONTRIBUTION TO THE LITERATURE	16
CHAPTER TWO: LITERATURE REVIEW	18
EXTERNAL ENVIRONMENT: ECONOMIC (BUSINESS) AND INDUSTRY CYCLE	18
<i>Concept and Dimensions of Environment</i>	18
<i>Hospitality Industry Business Cycle</i>	19
STRATEGIC GROUPS	21
TYPES OF STRATEGY CHOICE	22
<i>Business Scope: Growth and Retrenchment</i>	26
Internal Growth Strategy Choice	26
External Growth Strategy Choice	28
Diversification	29
Retrenchment Strategy Choice	30
<i>Distinctive Competencies</i>	31
Cost Advantage	32
Differentiation	32
<i>Strategic Orientation /Posture</i>	35
STRATEGIC RESPONSIVENESS TO ENVIRONMENTAL CHANGE	37
ENVIRONMENT, STRATEGY, STRUCTURE, AND PERFORMANCE: CO-ALIGNMENT PRINCIPLE	40
INTERVAL AND DURATION BETWEEN STRATEGY CHOICES AND THEIR EFFECTS	44
SUMMARY OF LITERATURE REVIEW	46
<i>Industry Cycle: External Industry Environment</i>	46
<i>Types of Strategy Choice</i>	47
<i>Linking Strategy and Performance to the Industry Cycle</i>	48
CHAPTER THREE: METHODOLOGY	51
HYPOTHESIZED MODEL AND PROPOSITIONS	51
DATA COLLECTION AND FIRM SELECTION	55
OPERATIONALIZING THE CONSTRUCTS AND DIMENSIONS	57
<i>Environment Construct: Identification of the Restaurant Industry Cycle</i>	57

<i>Environment Construct :Determination of Turning Points</i>	59
<i>Strategy Choice Construct: Types of Strategy Choices</i>	61
<i>Strategy Construct: Mapping Strategy Choices</i>	66
<i>Performance Construct</i>	68
LINKING INDUSTRY CYCLES, STRATEGIES, AND PERFORMANCE	69
SUMMARY OF METHODOLOGY	74
<i>Industry Cycle: Environment Construct (Proposition 1)</i>	74
<i>Textual Content Analysis (Proposition 2)</i>	75
<i>Longitudinal Mapping Strategies (Proposition 3)</i>	75
<i>Linking the Industry Cycle, Strategy Types, & Performance (Preposition 4)</i>	75
CHAPTER FOUR: ANALYSES AND FINDINGS	77
PROPOSITION ONE: <i>THE RESTAURANT INDUSTRY HAS UNIQUE CYCLICAL CHARACTERISTICS (THE TIMING, DURATION, AND AMPLITUDE OF ITS FLUCTUATION)</i>	79
<i>Developing the Restaurant Industry Cycle</i>	79
<i>Timing of Industry Cycle Phases</i>	82
<i>Duration of Industry Cycle</i>	84
<i>Amplitude of Industry Cycle</i>	85
PROPOSITION TWO: <i>THE CASUAL DINING INDUSTRY HAS DISTINCTIVE TYPES OF STRATEGY CHOICES</i>	86
<i>Preparation of Textual Data</i>	86
<i>Identification of Key Words and Content Categories</i>	87
<i>Content Categories of Strategy Choices</i>	95
Mergers and Acquisition (M & A).....	95
Service Development	96
Pricing and Promotion	97
Eco-friendly and Energy Efficient Production.....	99
Community Involvement	100
Leadership and Communication with Stakeholders.....	101
Location and Construction.....	102
Safety and Health.....	103
Technology Innovation	103
Human Resource Management	105
Product Development -Brand, Menu, Concept.....	106
Unit Expansion- New Openings	107
Balancing between Cost and Quality: Franchising, Purchasing, Labor retention.....	107
PROPOSITION THREE: <i>CASUAL DINING RESTAURANT FIRMS CHANGE THEIR STRATEGY CHOICES IN RESPONSE TO CHANGES IN THE INDUSTRY CYCLE</i>	108
<i>Overall Trends in Strategy Choices</i>	109
<i>Industry's Response to the Restaurant Industry Cycle</i>	112
<i>Comparing Mean of Strategy Choice between Different Phases of the Industry Cycle</i>	127
PROPOSITION FOUR: <i>THE TIMING OF STRATEGY CHOICES OVER THE INDUSTRY CYCLE DETERMINES THEIR SUPERIOR INVESTMENT RETURNS; THE EFFECTS OF STRATEGY CHOICE ON FIRM PERFORMANCE VARY WITH EACH PHASE OF THE INDUSTRY CYCLE</i>	133

<i>Overall Findings</i>	136
<i>Results by Cycle Phase</i>	137
<i>Results by Strategy Choice</i>	138
SUMMARY OF ANALYSES AND FINDINGS.....	142
CHAPTER FIVE: DISCUSSION AND CONCLUSIONS.....	143
PROPOSITION ONE: <i>THE RESTAURANT INDUSTRY HAS UNIQUE CYCLICAL CHARACTERISTICS</i>	145
PROPOSITION TWO: <i>THE CASUAL DINING INDUSTRY HAS DISTINCTIVE TYPES OF STRATEGY CHOICES</i>	147
PROPOSITION THREE: <i>CASUAL DINING RESTAURANT FIRMS CHANGE THEIR STRATEGY CHOICES IN RESPONSE TO CHANGES IN THE INDUSTRY CYCLE</i>	151
PROPOSITION FOUR: <i>THE TIMING OF STRATEGY CHOICES OVER THE INDUSTRY CYCLE DETERMINES THEIR SUPERIOR OR INFERIOR INVESTMENT RETURNS; THE EFFECTS OF STRATEGY CHOICE ON FIRM PERFORMANCE VARY WITH EACH PHASE OF THE INDUSTRY CYCLE</i>	154
CONTRIBUTION OF THE RESEARCH	159
LIMITATION AND FUTURE STUDIES	160
CONCLUSION	162
REFERENCES.....	163
APPENDIX A: EXCLUDED WORDS IN CONTENT ANALYSIS.....	171
APPENDIX B: RELATIONSHIPS BETWEEN STRATEGY CHOICE AND PERFORMANCE OVER THE INDUSTRY CYCLE.....	174

List of Figures

FIGURE 1: MARKET CAPITALIZATION FOR KEY CASUAL DINING RESTAURANT FIRMS, 1996-2010	3
FIGURE 2: SALES GROWTH FOR KEY CASUAL DINING RESTAURANT FIRMS, 1996-2010	4
FIGURE 3: PHASES OF THE BUSINESS CYCLE	10
FIGURE 4 : SALES GROWTH OF FULL SERVICE VS. QUICK SERVICE RESTAURANT CHAINS, 1996-2010....	14
FIGURE 5: HYPOTHESIZED MODEL FOR RELATIONSHIPS BETWEEN INDUSTRY CYCLE, STRATEGY CHOICE, AND PERFORMANCE	16
FIGURE 6: UNIT GROWTH OF CASUAL DINING RESTAURANT COMPANIES BETWEEN 1997- 2006	27
FIGURE 7: HYPOTHESIZED MODEL AND KEY STUDIES FOR RELATIONSHIPS BETWEEN INDUSTRY CYCLE, STRATEGY, AND PERFORMANCE	52
FIGURE 8: HP FILTER GENERATED CYCLE	59
FIGURE 9: SIX PHASES OF THE INDUSTRY CYCLE	60
FIGURE 10: CATPAC CONTENT ANALYSIS PROGRAM ANALYSIS OF CASUAL DINING FIRMS ACTIVITIES AND MANAGEMENT (2008 NOVEMBER -2010 NOVEMBER).....	65
FIGURE 11: EXAMPLE OF RELATIONSHIP BETWEEN INDUSTRY CYCLES, STRATEGIES, AND PERFORMANCE	73
FIGURE 12: THE PROCESS OF DECOMPOSING SEASONAL AND TREND COMPONENTS	80
FIGURE 13: SEASONALITY DECOMPOSITION	81
FIGURE 14: LONG-TERM TREND DECOMPOSITION.....	81
FIGURE 15: DURATION OF CYCLE PHASES.....	83
FIGURE 16: AMPLITUDE OF CYCLES	86
FIGURE 17: RESULTS OF CONTENT ANALYSIS: GROUPING STRATEGY CHOICES.....	93
FIGURE 18: RELATIONSHIP BETWEEN THE RESTAURANT INDUSTRY CYCLE AND THE AGGREGATE OF STRATEGY CHOICES	111
FIGURE 19: RELATIVE DEPENDENCY AMONG STRATEGY CHOICES (2006Q1-2010Q4)	111
FIGURE 20-1: MERGERS AND ACQUISITIONS OVER THE INDUSTRY CYCLE	114
FIGURE 20-2: SERVICE DEVELOPMENT OVER THE INDUSTRY CYCLE	115
FIGURE 20-3: PRICING AND PROMOTION OVER THE INDUSTRY CYCLE	116
FIGURE 20-4: ECO-FRIENDLY AND ENERGY EFFICIENT PRODUCTION OVER THE INDUSTRY CYCLE	117
FIGURE 20-5: COMMUNITY INVOLVEMENT OVER THE INDUSTRY CYCLE	118
FIGURE 20-6: LEADERSHIP AND COMMUNICATION WITH STAKEHOLDERS OVER THE INDUSTRY CYCLE	119
FIGURE 20-7: LOCATION AND CONSTRUCTION OVER THE INDUSTRY CYCLE	120
FIGURE 20-8: SAFETY AND HEALTH OVER THE INDUSTRY CYCLE	121
FIGURE 20-9: TECHNOLOGY INNOVATION OVER THE INDUSTRY CYCLE	122
FIGURE 20-10: HUMAN RESOURCE MANAGEMENT OVER THE INDUSTRY CYCLE.....	123
FIGURE 20-11: PRODUCT DEVELOPMENT OVER THE INDUSTRY CYCLE.....	124
FIGURE 20-12: UNIT EXPANSION OVER THE INDUSTRY CYCLE.....	125
FIGURE 20-13: BALANCE BETWEEN COST AND QUALITY OVER THE INDUSTRY CYCLE	126
FIGURE 21: SUMMARY OF RELATIONSHIPS BETWEEN INDUSTRY CYCLE, STRATEGY CHOICE, AND PERFORMANCE	158

List of Tables

TABLE 1 : SALES, NUMBER OF RESTAURANTS, NUMBER OF SEATS, AND POPULATION.....	15
TABLE 2: COMPARISON OF DIMENSIONS FOUND IN KEY STUDIES	24
TABLE 3: UNIT GROWTH OF SELECTED CASUAL RESTAURANT CHAINS, 2005-06	28
TABLE 4: MEDIA EXPENDITURES FOR LEADING CASUAL RESTAURANTS, 2004-08	35
TABLE 5: EXAMPLE OF SUMMARY OF MERGERS AND ACQUISITION STRATEGIES BY DARDEN RESTAURANTS.....	67
TABLE 6: SUMMARY OF DATA, VARIABLES, AND METHODS FOR ANALYSES	78
TABLE 7: DATES OF INDUSTRY CYCLE PHASES (YEAR/QUARTER)	84
TABLE 8: DURATIONS OF INDUSTRY CYCLE PHASES.....	85
TABLE 9: NUMBER OF ARTICLES BY QUARTER	87
TABLE 10: COMPARISON OF STRATEGY DIMENSIONS	91
TABLE 11: RESULTS OF CONTENT ANALYSIS: FREQUENCY OF WORDS	92
TABLE 12-1: LONGITUDINAL MAPPING OF MERGERS AND ACQUISITION BY FIRM.....	114
TABLE 12-2: LONGITUDINAL MAPPING OF SERVICE DEVELOPMENT BY FIRM	115
TABLE 12-3: LONGITUDINAL MAPPING OF PRICING AND PROMOTION BY FIRM	116
TABLE 12-4: LONGITUDINAL MAPPING OF ECO-FRIENDLY AND ENERGY EFFICIENT PRODUCTION BY FIRM	117
TABLE 12-5: LONGITUDINAL MAPPING OF COMMUNITY INVOLVEMENT BY FIRM	118
TABLE 12-6: LONGITUDINAL MAPPING OF LEADERSHIP AND COMMUNICATION WITH STAKEHOLDERS	119
TABLE 12-7: LONGITUDINAL MAPPING OF LOCATION AND CONSTRUCTION BY FIRM	120
TABLE 12-8: LONGITUDINAL MAPPING OF SAFETY AND HEALTH BY FIRM.....	121
TABLE 12-9: LONGITUDINAL MAPPING OF TECHNOLOGY INNOVATION BY FIRM	122
TABLE 12-10: LONGITUDINAL MAPPING OF HUMAN RESOURCE MANAGEMENT BY FIRM.....	123
TABLE 12-11: LONGITUDINAL MAPPING OF PRODUCT DEVELOPMENT BY FIRM.....	124
TABLE 12-12: LONGITUDINAL MAPPING OF UNIT EXPANSION BY FIRM.....	125
TABLE 12-13: LONGITUDINAL MAPPING OF BALANCE BETWEEN COST AND QUALITY BY FIRM	126
TABLE 13: ANOVA & WELCH/BROWN-FORSYTHE TEST RESULTS FOR MEANS OF STRATEGY CHOICES	129
TABLE 14: PAIRWISE COMPARISONS	130
TABLE 15: SUMMARY OF DESCRIPTIVE AND ANOVA ANALYSIS FOR FIRM’S EMPHASIS ON STRATEGY CHOICE OVER THE INDUSTRY CYCLE	132
TABLE 16: CROSS-CORRELATIONS	134
TABLE 17: THE EFFECT OF STRATEGY CHOICE OVER THE RESTAURANT INDUSTRY CYCLE BY FIRM	140
TABLE 18: SUMMARY OF FINDINGS IN THE CURRENT STUDY	143

CHAPTER ONE: INTRODUCTION

Upturns and downturns are a recurring fact of life in most industries (Rigby, 2001). The recurrent fluctuation of output around a trend is called cycles (Lucas, 1977; Prescott, 1998) so the industry cycle refers to the recurrent fluctuations of industry output or growth. Each phase of the industry cycle is associated with a different growth potential, industry structure, competition, and resource availability (Strebel, 1987) and creates different opportunities and threats for an individual firm. Upturns of an industry may create opportunities for accelerating a firm's profit, while downturns may create opportunities for restructuring or preparing to win in upswings. In the waves of industry dynamics, the key challenge for corporation executives is what strategic choice¹ should be made and when that choice should be implemented.

Strategizing around the industry's upturns and downturns requires insight into the interaction between the industry environment and company strategies. The influence of environments on firm strategy choice and performance has been one of the central subjects in strategic management literature. This associated research conceptually and empirically has explained firm performance as a function of the fit between external environments and firm strategy choice (Lawrence & Lorsch, 1967; M Porter, 1980). Extending this argument, researchers have confirmed the linkage among environment, strategy, and performance through their findings that the effect of different strategy choices (e.g. product development, technology differentiation, social responsibility) on firm performance is moderated by changes in environments (Carbonell & Rodriguez, 2006; Goll & Rasheed, 2004; Prescott, 1986; Wu, Lin, & Chen, 2007; Zahra, 1996).

Not all firms making the same strategic choice experience similar growth or decline, since upturns and also downturns of the industry environment influence the relationship between strategic choice and its outcome differently. Thus, poor timing in regard to strategic choice can lead to a low success rate, even if the choice itself is sound. The environment continuously sends out different signals about changes, trends, prospects, threats, and opportunities, though these signals are often weak, and ambiguous. Therefore, only a systematic and powerful process can prevent strategic surprise by reading the weak signals early enough to save a firm from declining

¹ Strategic choice is the firm's choice of investing in bundles of goods and services that are used to compete in the market and which should be reflective of the organization's intended strategy.

conditions (Gilad, 2004). Using the industry cycle is one way to understand the dynamics of the industry environment. The cyclical behavior of the industry implies that firms can detect the right time to move in and out of a particular strategy choice. As a result, firms need to align the right mix of their strategic choices with each phase of the industry cycle to achieve competitive advantage.

Problem Statement

Recent economic downturns, coupled with a recession, mortgage woes, and commodity price increases have, in general, caused a decrease in demand in the restaurant industry. The casual dining industry², when compared to other restaurant industry sectors, has been impacted the most by the drop in demand for the restaurant industry since 2008. Consumers have turned to cheaper options such as fast food chains or grocery stores, rather than dining out at a casual dining restaurant. Moreover, the market tends to be saturated and the increase in food costs has worsened the sector's profitability. Many casual dining restaurant firms have announced negative growth changes in customer counts and sales since 2007 when a recession of the overall economy started (Figure 2) and traded below their yearly ranges in U.S stock market between 2008 and 2009 (Figure 1). The industry cycle behave similarly to the economic cycle, by lagging or leading the economic cycle (Choi, 1999) so around the recession of the economic cycle, the industry also should be near a recession period. Applebee's/DineEquity, OSI Restaurant Partners, Rare Hospitality, and Ruby Tuesday have been the worst performers in terms of market value growth and sales growth. They continuously have had declining sales since 2007. Further, their shares steeply dropped to levels not seen for a decade.

During the recent downturns and recession in the overall economy, casual dining restaurant firms have attempted to manage through the recession of the economic industry cycle. However their strategy choices were often limited to quick fixes for cash flow problems (e.g. TGIF's \$5 menu promotion), simply cutting back the number of restaurants open (e.g. closings of owned units), or just waiting for the economic and industry recovery. Casual dining restaurant

² The casual dining industry is a restaurant industry sector of restaurants that serve moderately priced food in a casual atmosphere. Casual dining restaurants provide table service and generally hold liquor licenses. Buffet-style restaurants are not included in this industry sector. This market segment is between the fast food and fine dining industry in terms of menu price and service. Major players in this sector are Applebee's, Darden Restaurants (Red Lobster, Olive Garden), Ruby's, O'Charley's, Outback Steakhouse, etc.

firms must develop and invest in the most appropriate strategy choice, not just pursue short-term benefits during the downswings of the industry's condition. Recessions may transform the industry environment dramatically and potentially profitable investment opportunities may exist (Fiegenbaum & Thomas, 1990). Understanding the most advantageous timing of when to enter and when to exit from a particular strategy is critical for long-term survival and prosperity. Timing is exactly where the critical dynamic role of movements in the industry cycle comes into strategic play. Knowing the effect of the industry cycle on the relationship between strategy choice and performance will help to provide insights about making the right strategic choice at the right time.

Figure 1: Market Capitalization for Key Casual Dining Restaurant Firms, 1996-2010

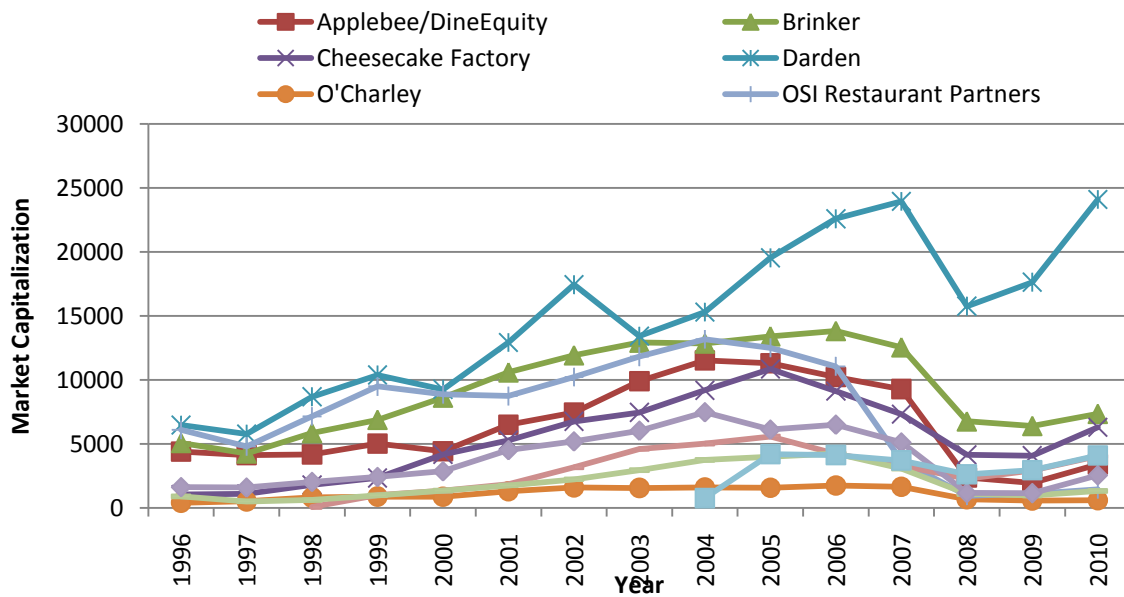
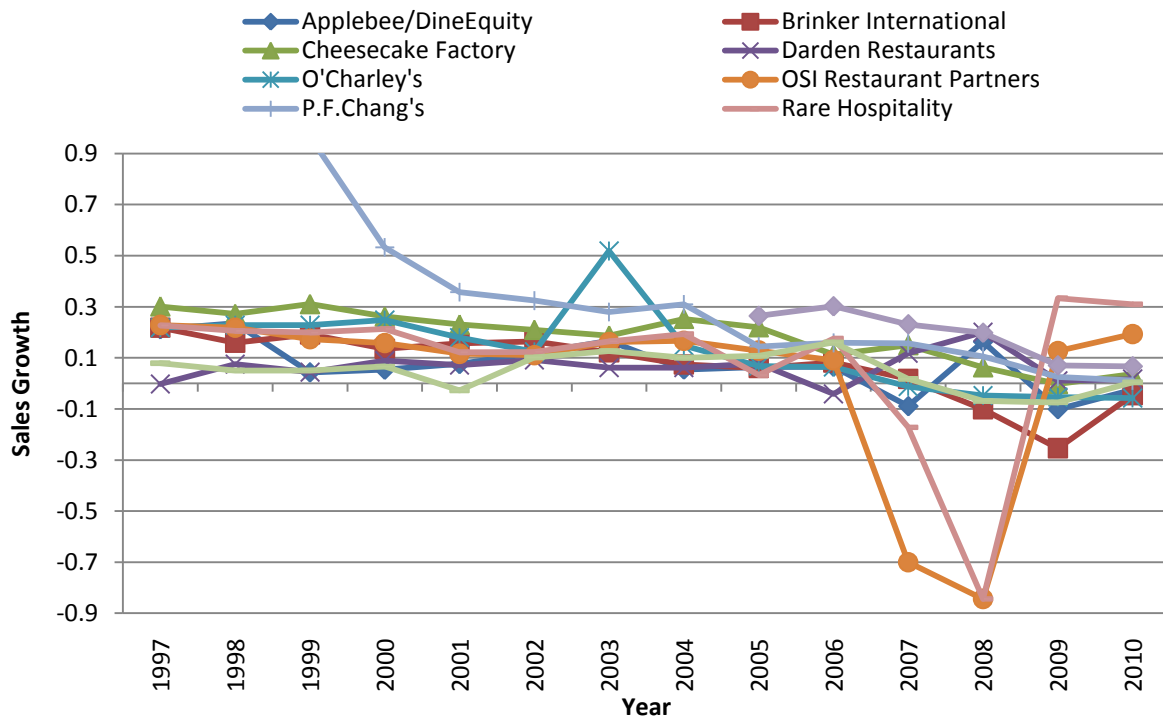


Figure 2: Sales Growth for Key Casual Dining Restaurant Firms, 1996-2010



The Importance of Timing of Strategy Choice

It is believed that a company that aligns its strategy and structure with its business environment can have a greater chance of achieving higher performance than one without alignment (Olsen, West, & Tse, 1998, 2007). A firm can even extend its lifespan by adopting the aforementioned alignment (Chathoth & Olsen, 2003). Despite the important linkage between environment and strategy choice, many firms tend to focus on a strategic choice itself rather than the timing of that choice. They also do not appear to use any systematic procedure to determine the impact of economic or industry contraction or expansion on their specific business (Shama, 1993).

We also do not see much coverage of the timing of strategy choice in existing business research. Studies related to environment and strategy choice have generally been silent on the timing of implementing strategy choice, assuming homogeneity of the period investigated. In other words, much less attention has been devoted to the sensitivity of the performance of strategy choice to cyclical variations in the economy or the industry (Anderson & Zeithaml, 1984; Deleersnyder, Dekimpe, Sarvary, & Parker, 2004; Mascarenhas & Aaker, 1989).

The complexity posed by the industry dynamics requires different strategies by individual firms at different times. Thus, it would be necessary for executives to adjust their activities to various phases of the industry cycle since the same strategy cannot be equally effective over the swings of industry demand. In the middle of a recession, firms may have competitive advantages through franchising because franchisors can minimize operational risks caused by the industry's deep decline in demand. However, other firms during the same period may acquire franchised units at low costs and can be strongly positioned for the next recovery with a high level of profits (Navarro, 2006). For example, in Alessandri and Bettis' study in 2003, US Airways had consistent types of strategy choices over time, but it both created and destroyed value. One of the reasons for the mixed output of the same strategic choice is that its strategy of having many expensive short-haul flights with large planes did not match with the downswing of the economic and industry's condition. A sound strategy may not be as effective during a downturn as it is during an upturn, so it is of importance to continuously adapt or adjust strategic choices according to changes in the industry cycle.

The Use of Direct Source of External Environment

Previous research on the cyclical environment has mostly focused on business cycles (also called economic cycles)³ in the aggregate economy (Geroski & Machin, 1993; Geroski & Walters, 1995; Mascarenhas & Aaker, 1989). Although the industry cycle and the business cycle are closely related, the general economic cycle (environment) and the industry cycle (environment) are hierarchical in nature. The industry cycle is more closely related to firms than is the business (or economic) cycle, since firms are influenced by the business cycle through the industry cycle.

Business cycles are derived from indicators of the economy using highly aggregated data so they neglect the heterogeneity across industries. Different industries have different levels of cyclicity. Namely, the timing, duration, and amplitude of the industry cycles can vary widely. Cyclical industrial dynamics often present different patterns from the general business cycle (Mathews & Tan, 2008). Tan and Mathews (2007) affirmed that the service industry generally

³ Business cycle, or economic cycle, refers to the recurrent but irregular up-and-down fluctuation of the aggregate economy. Six different phases of activity spread out over a period of years -- the trough, the recovery, the expansion, the peak, the contraction, and the recession -- make up a business cycle.

shows fewer and less intense cyclical fluctuations than manufacturing industries, because service activities have difficulties with stocking services and require less capital, as well as having higher price and wage rigidities. Petersen and Strongin (1996) found evidence that durable goods industries are about three times more cyclical than non-durable goods industries. In addition to the difference in patterns between the business cycle and industry cycle, industries have different sensitivities to general environmental changes. Some industries may not be very sensitive to economic swings (Berman & Pfleeger, 1997), while others may be extremely vulnerable to the swing. During a recession a capital expenditure strategy might be inappropriate for a firm within an industry that is very sensitive to change in the business cycle. Alessandri and Bettis (2003), in their comparative study of firm performance in the most recent market cycle, found that not all industries experienced the effects to the same extent in the bear market and even in the bull market.

In linking the business cycle to strategic choice, it is sometimes found that the robust quality of the same strategic choice is different among industries over the business/economic cycle. For example, regarding employment patterns in the service industry, researchers at the Bureau of Labor Statistics identified that some industries whose employment appears to be counter-cyclical⁴ behave far better than other industries during recessions while faring worse in expansions. Low-paying jobs like those in the restaurant, amusement or recreation businesses appear to behave counter-cyclically due to the availability of more attractive job opportunities in other industries during times of economic expansion. Thus, counter-cyclical patterns of a strategic choice may appear in some industries.

The hotel industry and restaurant industry react in different ways to the US business cycle (Choi, 1999), which shapes the industry's own cycle. According to Choi (1999), there were differences in terms of the timing, duration, and magnitude of their fluctuations between the economic cycle and industry cycle. As mentioned, the business cycle influences firms through the industry cycle, so it is more practical for executives to utilize more the influential cycle, the industry cycle, when making strategic decisions. The existence of restaurant market cycles was first discovered by Choi (1999). According to his analysis of annual data series in the restaurant industry, the U.S. restaurant industry demonstrated three cycles (peak to peak or trough to trough)

⁴“Counter cyclical” means moving in the opposite direction of the overall economic cycle: rising when the economy is weakening, and falling when the economy is strengthening.

during the period of 1970 to 1998. On average, the restaurant industry experienced high growth (boom) every five years. His findings suggest that restaurant industry growth cycles tended to be relatively symmetrical, while the restaurant industry business cycles during the same period showed a strong asymmetry. The study supported the idea of cyclical fluctuations of the growth of the restaurant industry.

Many restaurants fail each year. In addition, casual dining restaurant firms have struggled with the recent downswings of the industry because of their inability to understand, adapt to, and/or anticipate market trends (Parsa, Self, Njite, & King, 2005). As found in Choi's study in 1999 and 2010 about the effects of changes in the industry life cycles on the financial decisions of restaurant firms, restaurant firms did not seem to aggressively react to industry dynamics. Successful owners or operators must develop strategy choices that enable them to continuously use and adapt to changes in the industry environment (Costa & Teare, 2000; Jogaratnam, Tse, & Olsen, 1999; Olsen, et al., 1998). In such a context, this study will help to find ways to link restaurant strategies with the industry environment in order to achieve a competitive advantage.

As mentioned, studies on strategy choices and their associated value creation have not really covered the timing of a strategic choice and the moderating role of the industry conditions in order to assess the success and failure of the strategic choice itself. How, then, do firms answer the question of when to invest and what to invest in? We should begin to answer this question by establishing the industry specific cycle that would determine the success or failure of a strategic choice. Studies in many settings often assume homogeneity of the period investigated, but strategies may be less than optimal for either an up or down market (Mascarenhas & Aaker, 1989). Understanding the interrelationships among the restaurant industry cycle, strategy choices of casual dining firms, and an individual firm's performance will help uncover the best-timed strategy choice. The ultimate objective of this study is to understand the robustness of different strategic choices according to the timing of the choice through the use of the industry cycle. By considering the timing of different strategy choices, executives will be able to make appropriate, well-timed strategic choice decisions in order to achieve competitive advantages.

Underlying Theories

Economic Cycle (Business Cycle)

The concept of the industry cycle in this study is derived from the hypotheses about capitalist development framed within a business cycle theory by Schumpeter (1912). Schumpeter's idea has been developed and reshaped by scholars at the National Bureau of Economic Research (NBER), Mitchell (1927) and Burns and Mitchell (1946). Burns and Mitchell's approach is data-driven rather than theoretical-based in that they have identified and described business cycles through the examination of economic data series. Their definition and method have been the common practice of measuring business or economic cycles.

Business cycles are a type of fluctuation found in the aggregate economic activity of nations that organize their work mainly in business enterprises: a cycle consists of expansions occurring at about the same time in many economic activities, followed by similarly general recessions, contractions and revivals which merge in the expansion phase of the next cycle; this sequence of changes is recurrent but not periodic; in duration business cycles vary from more than one year to ten or twelve years; they are not divisible into shorter cycles of similar character with amplitudes approximately their own. (Burns and Mitchell, 1946, p. 3)

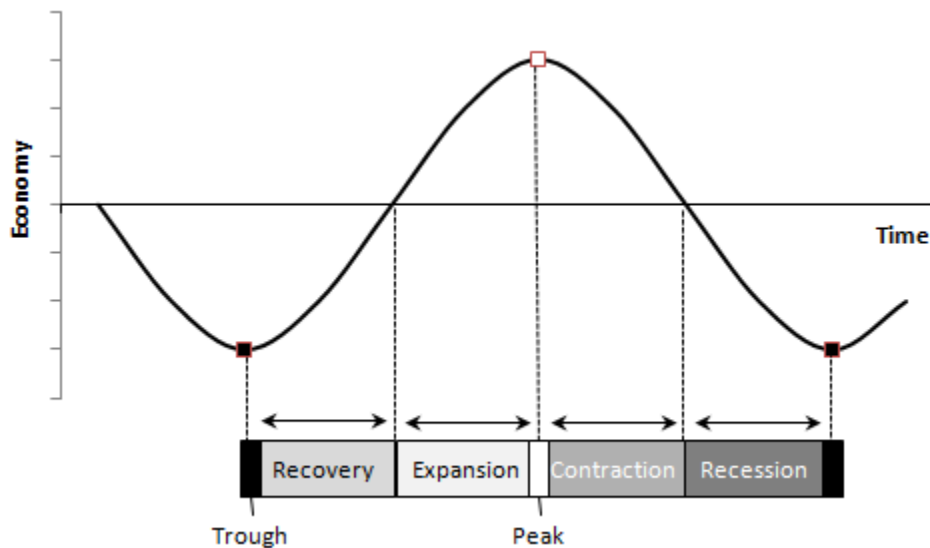
Economic cycle, generally called business cycle, is a type of recurrent fluctuation found in the aggregate economic activity of nations (Burns & Mitchell, 1946). Fluctuations mean deviations from some slowly varying path that is trend increasing monotonically over time (Prescott, 1998). Business fluctuations and cycles have long been a major subject of economic research since the work of Burns and Mitchell (1946) and Friedman and Schwartz (1971). A list of business cycle indicators was first compiled by Mitchell and Burns for the National Bureau of Economic Research (NBER) in the 1930s. Subsequent work on business cycle indicators was performed by Moore (1961), Bry and Boschan, (1971), Zarnowitz (2002), and others affiliated with the NBER (The Conference Board, 2004). This strand of research has undergone new and innovative development following the work of Kydland & Prescott (1982) and the emergence of the Real Business Cycle theory (King & Plosser, 1984). Although there is much disagreement among the explanations of fluctuations in aggregate economic activity, the most common framework to account fluctuations of business cycle is associated with Keynesian economics

(Keynes, 2006) or supply shifts typically caused by technology shocks (Kydland & Prescott, 1982).

Economists have devoted a huge amount of time to the difficult task of forecasting business-cycle turning points for empirical economics, business, policy, and academic research. Their methods used in dating the economic cycle have varied, largely due to the fact that there is no single measure of aggregate economic activity. Also, each business cycle is unique as the economy grows and changes with new products, new firms, and new consumers (Schumpeter, 1934). A cycle generally consists of the following six phases, with each creating different conditions for business:

- A peak is the top of the business cycle.
- A trough is the bottom of the business cycle.
- A downturn or contraction is when economic activity starts to fall from a peak.
- An upturn or recovery is when economic activity starts to rise from a trough
- A recession is a decline in output that persists for more than two consecutive years.
- An expansion or prosperity is an upturn that lasts at least two consecutive years.

Figure 3: Phases of the Business Cycle



In recent years, the attention of researchers has turned to the study of economic fluctuation rather than to business cycles. Some researchers like Friedman and Schwartz (1971) do not believe in the cyclical patterns of the economy and insist that business declines are more related to monetary policies. However, the industry cycle is still a widely used term and indicator of economic activity and condition.

This study focuses on the industry cycle rather than on the business cycle. However, it is necessary to review traditional studies in regard to relating strategies or tactics to the business cycle so as to derive the definition and the procedure of cyclical dynamics. Recession generally causes significant declines in the resources available to the firm because customers spend less, lenders lend less, and competitive rivalry increases. Researchers suggested that in order to prevent downturns or recessions from causing business failure, a firm should position itself in multiple markets and geographies, plan to confront declining sales, promote the firm's products and services, and prepare for recovery (Pearce & Michael, 2006). Several researchers like Aaker and Mascarenhas (1989), Deleersnyder (2003), and Roberts (2003) examined the success of a strategy in different phases of the economic cycle. They advocated that economic cycle fluctuations are responsible for an important decline in general consumer demand and operational costs, and trigger considerable strategic changes on the part of the company. Their findings show industries vary in their sensitivity to economic fluctuations and that each phase of

the economic cycle determines the speed and magnitude of economic impacts on the outcomes of strategy choice.

Co-Alignment Principle

With Chandler (1973), Ansoff (1965), and Andrew (1971), strategic management research shifts from a deterministic one-best-way approach to a more contingent perspective where organizations need to adapt to their external environments. Since the studies of Chandler (1962), Ansoff (1965), and Andrew (1971), many researchers have attempted to identify relationships between environment, strategy, and performance. The literature of industrial organization economics developed models from the structure-conduct-performance (SCP) paradigm, and Porter (1980, 1985) outlined frameworks to understand the industry structures that affect competitive advantages. The research focus shifted from SCP where competitive advantage is primarily determined by environmental factors to resource based view (RBV) that highlights how the possession of valuable, rare, inimitable, and non-substitutable resources may result in sustained superior performance (Barney, 1991). The resource-based view literature developed to find a relation between a firm's resources and performance. Following the seminal work of Penrose (1959), RBV conceptualizes a firm as a bundle of productive resources with different firms possessing unique bundles of these resources. Important theoretical development was done by Barney (1991).

Hospitality strategic management research has evolved in a similar way, and led to the emergence of the co-alignment model (Olsen, et al., 1998, 2007). Strategy research in hospitality management has tried to theorize connections between the environment and other constructs of the co-alignment model, such as strategy choice, structure, and performance. In the hospitality strategic management literature, the "co-alignment principle" is employed to explore the relationships amongst key elements of the strategic management process in a firm (Olsen, 1980; Reid & Olsen, 1981; Dev & Olsen, 1989; Turnbull, 1996; Zhao, 1994; Chathoth, 2002; Chathoth & Olsen, 2007). The elements that fall within the purview of the principle are: 1) forces driving change in the environment in which the firm competes; 2) strategies in which the firm invests in order to add to its financial value; 3) business structure that must follow in conjunction with strategies identified; and 4) the firm's performance evaluation. According to the co-alignment

principle, effective strategic management focuses upon identifying existing and emerging forces driving changes in the various categories of the environment and finding out how these changes impact the firm's choice of strategy choice, structure and overall performance.

Purpose of Study

Industry economics have historically been prone to fluctuations--booms and slumps--over time. A pattern in the fluctuations is referred to as the industry cycle. The cycle is indicative of industry conditions that influence the operation of a firm at any given point in time. An upturn phase of the industry cycle would allow the firm to acquire additional locations and to launch new brands. Firms may use an upturn as a time to stock resources to sustain their business during an anticipated time of the slower growth in near future. Downturns, however, may be a time to develop products and services and to invest in technology to quickly gain customers for the next recovery. An industry peak would minimize the industry growth possibility and is a time when firms may need to focus on differentiating their products and services. In brief, strategy choice should vary over the industry cycle for firms in order to achieve competitive advantage.

Although knowledge of cycle management is critical, there have been few systematic frameworks for this discipline. Therefore, this study aims at providing a relevant framework for using the industry cycle as a tool for well-timed strategies in the casual theme restaurant industry. By utilizing the industry cycle, executives would be better able to assess possible success or failure of a particular strategy at different stages of the industry cycle, and to determine the relevance of timing as it relates to investments or asset allocation.

Considering that individual companies are affected by industry conditions (or industry demand) and that the timing of implementing a strategy is critical to strategic choice, this study attempts to: 1) develop the restaurant industry cycle model, 2) identify archetypes of strategies by casual dining restaurant firms, 3) investigate how the firms adjust their strategic positions over the cycle, and 4) examine how industry cycles affect the relationship between strategic choice and performance. Specifically, research questions that are answered by this study are:

- What is the timing, duration and amplitude of the restaurant industry cycle?
- What are the key strategic choices of the casual dining industry?

- Do casual dining restaurant firms change or adjust their strategies in response to changes in the industry cycle (environment)?
- What role does the industry cycle play in the relationship between strategy choice and performance? What strategies are associated with high performance? Should firms emphasize different strategy choice as the phase of the industry cycle changes?

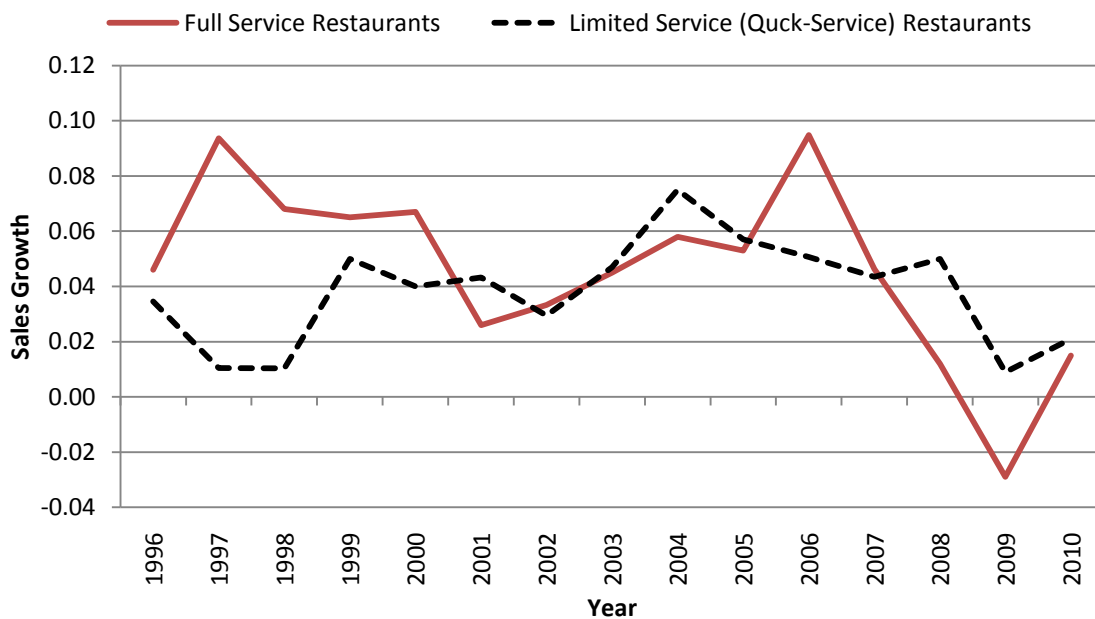
Context of Study

Current Status of the Casual Theme Restaurant Industry

Reaching \$111 billion in 2010, the casual dining restaurant market is one of the largest segments of the restaurant industry. After consistent growth from 1997 to 2005, many chains however have been seeing declining earnings, cash flows, and comparable store sales since 2006 as well as many acquisitions in 2007. The restaurant market to some extent seems to be saturated and experiencing fierce competition. The economic recession from 2007 to 2009 has made the full service sector including casual dining and fine dining segment suffer from sales and turn sharply from expanding capacity to stealing share from competitors (Figure 4).

Table 1 presents the summary of restaurant demand (sales) and supply (number of restaurant or seats) in the restaurant industry since 1996. According to U.S. Census Bureau, sales of full-service restaurants and limited service restaurants have increased between 1997 and 2007 due to increases in customer counts and menu prices. The consistent growth in sales has been suppressed by external environmental factors, especially the economy since 2007.

Figure 4 : Sales Growth of Full Service vs. Quick Service Restaurant Chains, 1996-2010



Data Source: National Restaurant Association

The supply growth measured by the number of seats in full-service (13.61%) and limited service restaurants (20.51%) exceeds the change in U.S. population (10.42%) (Table 1). It is estimated that there are 19 possible customers per seat in U.S. full-service restaurant companies. Under such competition and steady demand for the industry, the only way for restaurant firms to survive might be to improve non-unit growth.

Since 2007, casual dining restaurants have been experiencing poor conditions for operations. Soaring gas prices, housing market woes, unstable interest rates, and weakening consumer confidence have been impacting consumer spending in regard to dining out and have led to a widespread decline in customer counts. Under the state of the economy and the current industry conditions, it is not easy to have a favorable prognosis for the future.

Casual dining companies have experienced many acquisitions of major players within the industry in 2007. OSI Restaurant Partners (Outback Steakhouse) was bought by Bain Capital Partners LLC, Catterton Management Co.; Applebee's International was acquired by IHOP Corp.; and RARE Hospitality was acquired by Darden Restaurants. These *mergers and acquisitions* activities and other alliances often depend on the presence of the drivers of

economic turbulence in a business setting. The chart below exhibits two-year same store sales and customer counts trends that have continued to trend lower.

Table 1 : Sales, Number of Restaurants, Number of Seats, and Population

		Sales (\$1,000)	Number of Restaurants	Number of Seats	U.S. Population	Population / # Restaurant	Population / # Seats
Full-service restaurants	1997	112,450,172	191,245	14,124,005	272,715,370	1,426	19
	2002	144,649,964	195,659	14,908,165	288,010,048	1,472	19
	2007	191,292,281	217,282	N/A	301,139,947	1,386	N/A
	% Change 10yrs		13.61%		10.42%		
Limited-service restaurants	1997	94,698,045	174,104	7,949,428	272,715,370	1,566	34
	2002	116,516,316	186,942	9,584,413	288,010,048	1,541	30
	2007	151,698,922	209,819	N/A	301139947	1,435	N/A
	% Change 10yrs		20.51%		10.42%		
Full and Limited restaurants	1997	207,148,217	365,349	22,073,433	272,715,370	746	12
	2002	261,166,280	382,601	24,492,578	288,010,048	753	12
	2007	342,991,203	427,101	N/A	301139947	705	N/A
	% Change 10yrs		16.90%		10.42%		

Data Source: U.S. Census Bureau

Note: Cafeterias, buffets, grill buffets, and drinking places are not included. Number of seats is the end of year data. No data available since 2007.

Hypothesized Model and Propositions

This study attempts to utilize theories and practices in the fields of economics, strategic management, corporate finance, and marketing to contribute to the body of knowledge in the hospitality literature by proposing a model. Such an application will assist restaurant industry executives in understanding the effect of industry conditions or cycles on the relationship between strategic choice and performance. Based upon a survey of literature, a model is initially developed and illustrates the link between industry environment, strategy, and firm performance (Figure 5). The constructs to be investigated are the industry cycle, strategy choice, and firm performance, which present the following four propositions:

Proposition 1: The restaurant industry has unique cyclical characteristics (timing, duration, and amplitude of its fluctuation).

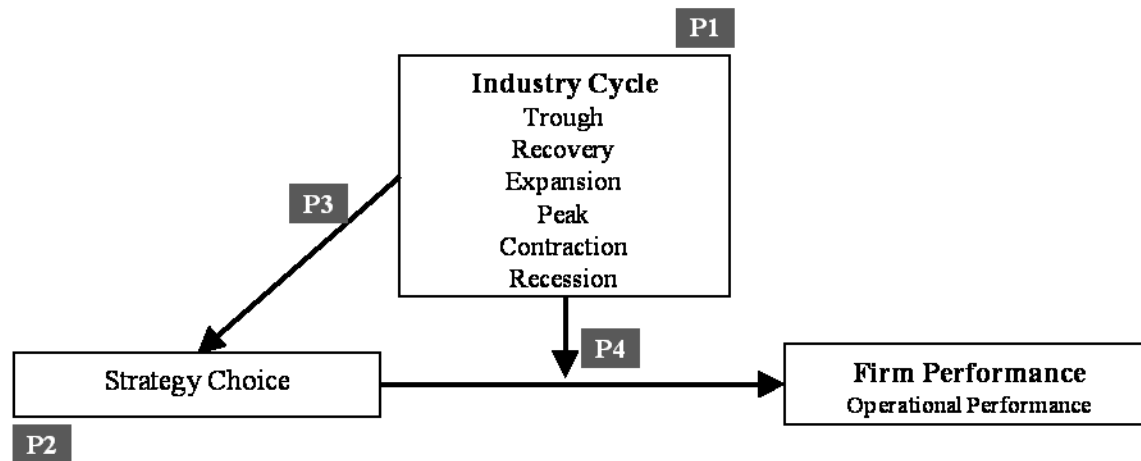
Proposition 2: The casual dining industry has distinctive types of strategy choices

Proposition 3: Casual dining restaurant firms change their strategic choices in response to changes in the industry cycle.

Proposition 4: The timing of strategic choices over the industry cycle determines their superior investment returns; the effects of strategic choice on firm performance vary with each phase of the industry cycle.

The details of each proposition are presented in Chapter Two and Three.

Figure 5: Hypothesized Model for Relationships between Industry Cycle, Strategy Choice, and Performance



Contribution to the Literature

This study contributes to the body of knowledge by proposing the restaurant industry cycle to uncover the timing of strategic choice. While companies feel a strong need to adjust or develop a strategic choice to swings of the industry cycle, they often do not know how to appropriately assess the impact of the cycles on the relationship between their strategic choices and performance (Navarro, 2005; Deleersnyder et al., 2004). By uncovering the best-timed strategic choice, this study will provide casual dining restaurant firms guidance to effectively allocate their resources among alternative strategic choices over the industry cycle so as to optimize their return.

This study also provides a comprehensive picture of the linkage of the external environment, strategy choice, and performance in the context of the casual dining industry.

Using both quantitative and qualitative approaches in this study will provide a methodological framework that overcomes the limitations of previous studies on the complex nature of environment, strategy, and performance.

The second chapter provides a review of the literature on the key constructs and their relationships, as well as how they are utilized to construct the framework for timing decision makings. The third chapter covers the propositions and methodological processes and other issues including data collection, the operationalized forms of constructs, and the mix of quantitative and qualitative approaches.

CHAPTER TWO: LITERATURE REVIEW

This chapter reviews the literature on the practices and effectiveness of strategic decisions. The review of the literature is divided into five sections. The first section discusses literature and theories on external environments and the industry cycle, while the next section reviews past literature on types of strategy. The third section covers theories and practices of firms' strategic responsiveness. The fourth section reviews the relationship between environment, strategy, structure, and performance. The final section reviews the time lag between strategy choices and their outcomes.

External Environment: Economic (Business) and Industry Cycle

Concept and Dimensions of Environment

Early studies on environment were focused on defining the business environment and exploring its dimensions. Selznick (1948) defined the business environment as flows of information relevant to goal setting and decision-making through managerial perceptions. Duncan (1972) defined the business environment as the totality of physical and social factors taken into consideration by a firm for making decisions. The environment is an umbrella concept that includes munificence, dynamism, and complexity that contribute to environmental uncertainty (Child, 1972; Duncan, 1972; Dess and Beard, 1984). Therefore in order to planning properly, it is necessary to correctly define the environment and to seek its incorporation into management thinking. Selznick (1948), Emery & Trist (1965), Lawrence & Lorsch (1967), Child (1972), Duncan (1972) and Jurkovich (1974) are the researchers mainly credited which conceptualizing the environment as a critical component within the corporate strategic management and decision-making process.

Duncan (1972) categorized the business environment into internal and external components. While the internal environment comprises social and physical factors within the boundaries of a firm so they are controllable by management, the external environment includes factors that out of the firm's control and present outside the boundaries of the firm. Extending this theoretical taxonomy, Dill (1958) and Bourgeois (1980) further divided the external environment into 'general' and 'task' categories. They considered the task environment which influences daily

operations and goal achievement, as being closest to the firm itself. Conversely, the outer layer, or the general environment, consists of sectors that affect firms indirectly. These sectors were the regulatory, economic, and socio-cultural environments. Within the context of the hospitality industry, DeNoble and Olsen (1986) classified the business environment hierarchically as the general and task environment. Olsen et al. (1998) detailed this classification by remote, task, functional, and firm environments. The remote environment is comprised of political, socio-cultural, economic, ecological, and technological issues (David, 2009; Olsen, et al., 1998, 2007). The task environment is comprised of customers, suppliers, competitors, and regulators (Duncan, 1972; Olsen, et al., 1998, 2007; Porter, 1980, 1985).

Scanning the business environment means the acquisition and use of information about events and trends in a firm's external environment. Top management's in-depth knowledge of environment is necessary to plan a firm's future course of action in order for the organization to operate successfully in a changing environment (Auster & Choo, 1994; Huber, 2004). The adaptability of business operations to external changes can be increased through appropriate and timely scanning of the environment.

Not all industries move with the same timing and magnitude as the overall economy. Industries have varying sensitivities to changes in the macro environment with different time lags. The reason for this lies in the hierarchy of the environment. The general environment generally influences a firm's strategy and performance through the industry environment, which is also called the task or the competitive environment. Demand for the industry determines the changing conditions that firms confront externally, which can be regarded as the market or industry cycle that each firm has to adapt to.

Hospitality Industry Business Cycle

The majority of previous studies on the relationships between firms and their external environments used the aggregated business (or economic) cycle as a proxy for the industry cycle, assuming a homogeneity of the impacts of the business cycle upon the demand and supply conditions of individual industries. The use of the business cycle ignores the sensitivity of an individual industry to economic change and the time lag between macro economy and the

industry. One industry may be more cyclical and react faster to changes in economic conditions than another (Berman & Pfleeger, 1997; Petersen & Strongin, 1996).

In this study, the definition of industry cycle is based on Burns and Mitchell's (1946) empirical definition of the business cycle, which explains that business cycles are a type of fluctuation found in the aggregate economic activity of nations. Their data-driven perspective is the most widely used methods for measuring the business cycle and provides a framework for the National Bureau of Economic Research (NBER)'s reference cycles. Using Burns and Mitchell's (1946) perspective, industry cycle can be defined as *cyclical patterns or fluctuations in sales, price, capital investment, and capacity of an industry* (Tan & Mathews, 2009). A cycle consists of contraction, recession, recovery, and expansion. As an important part of the economy, the hospitality industry has cyclical trends having amplitudes and turning points. Systematic studies on the business cycle or industry cycle in the hospitality settings are rare. The only work on the relationship between the business cycle (remote environment) and industry cycle (task environment) is Choi's works on the hotel and restaurant sectors (Choi, 1999; Choi, Olsen, Kwansa, & Tse, 1999). Choi, Olsen, Kwansa, and Tse (1999) developed a model to capture a business cycle for the US hotel industry. Aimed at covering hotel activities as broadly as possible, the hotel industry cycle model which was developed illustrated the magnitude of growth in the US hotel industry. They found that the hotel industry experienced high growth every four or five years over a 28-year period ranging from 1966 to 1993. Specifically, the average contraction period was about 2 years, while the average expansion period was about 3 years. They further showed that the hotel industry preceded general business cycle peaks by approximately 0.75 years on average and preceded troughs in the general business cycle by an average of 0.5 years.

Choi's (1999) research on the U.S. restaurant industry revealed three peaks (1973, 1979, 1989) and four troughs (1970, 1974, 1980, 1991) in the industry, comprising a total of three cycles (peak to peak or trough to trough) during the period of 1970 to 1998. On average, the restaurant industry experienced high growth (boom) every five years. The cycle duration averaged 8 years when measured from peak to peak and 6.5 years when measured from trough to trough. The contraction period was very short in comparison to the expansion period. Specifically, an expansion of the industry takes approximately 6 years, and its drop to the bottom takes only 1.33 years on average. According to Choi's (1999) findings, restaurant industry

growth cycles tended to be relatively symmetrical, while the restaurant industry business cycles during the same period showed a strong asymmetry. This study supports the view that the cyclical fluctuations of the growth of the restaurant industry can be projected by measuring and analyzing a series of economic indicators in which each economic indicator has specific characteristics in terms of time lags, and thus can be classified into leading, coincident, and lagging indicators.

As many industries have different cyclical patterns and sensitivities to the general business cycle, it is necessary to develop an industry specific cycle as a direct source of influence on firms. In this context, casual dining restaurant firms are more directly affected by the cyclical fluctuations of restaurant demand and capacity than by the general business cycle, which is derived from highly aggregated economic series. To provide a more realistic picture of the external environment for the restaurant industry, this study aims at developing the restaurant industry specific cycle for further analysis and suggests the following proposition:

Proposition 1: The restaurant industry has unique cyclical characteristics (the timing, duration, and amplitude of its fluctuation).

Strategic Groups

Performance differences appear to exist between groups of firms within the same industry as well as across industries. A strategic group is a group of firms within an industry following the same, or a similar, strategy choice (Porter, 1980). In this context, strategic groups of the casual dining firms would experience performance differences according to their mix of scope and resource commitments. This idea is important in order to compare and contrast groups of firms in terms of strategic outcomes.

The concept of strategic groups, which was extended by industrial organization (IO) economists, states that firms within industries can be grouped according to their strategy choices. The strategic group of firms within an industry is highly symmetrical with respect to cost structure, degree of product differentiation, degree of vertical integration, and the degree of product diversification (Hunt 1972; Dess & Davis 1984; Fiegembaum & Thomas, 1990; Carroll & Swaminathan, 1992). A designation originating in the 1970s, strategic groups are typically

identified through a cluster analysis or inspection by IO researchers. Companies are grouped on the basis of strategy choice variables, such as marketing, research and development, types of diversification, business scope and resource commitments, size, financial risk variables, balance sheet items, or other strategy choice variables. (Tassy, 1983; Foegenbaum, 1987; de Bondt, 1988; Mascarenhas, 1989; Barney & Hoskisson, 1990; Barnett, 1993; McNamara, Deephouse, & Luce, 2003).

Strategic groups support the underlying assumption of this study, which is that the impacts of the industry environment on an individual firm's performance are similar for firms with similar resource allocation. This study, as an effort to develop a scientific model, investigates the success level of each strategic group depending on industry conditions so that we can answer whether or not investments by the group are well-timed. The results of the study will enable managers to understand the homogeneous movement of the strategic group's performance, and to capture the broad effect of industry conditions on the strategic group.

Types of Strategy Choice

Over the years, in order to understand the effects of organizational strategy and its relationship with environment, structure, or performance, researchers have categorized similarities of strategies, and tried to identify archetypes representing possible combinations of strategy variables (Hambrick, 1980). Within this stream of research, the most popular frameworks and strategy typologies have been built by Miles and Snow (1978) and Porter (1985).

For empirical research in the hospitality industry, researchers such as Tse & Olsen (1988), West & Olsen (1989), Williams & Dev began to utilize approaches believed to be generalizable across industries, specifically those proposed by Porter (1980) and by Miles and Snow (1978, 1986). Miles and Snow's (1978) framework identified four strategic types: prospectors, defenders, analyzers, and reactors. Prospectors perceive a dynamic and uncertain environment. Thus, they maintain flexibility and responsiveness to changes in environments (Miles & Snow, 1986). In contrast, defenders perceive the environment to be stable and certain. They usually focus on stability and control in their operations so as to maximize efficiency. Analyzers try to allocate resources that can result in both stability and flexibility. Reactors are poor performers according to Miles and Snows (1978)'s definition, lacking consistency in

strategic choice. Shaffer (1988) argued that, based on his study on a typology of lodging industry, strategy types for the hotel sector are not exact duplicates of Miles and Snow's or Porter's, and suggested five strategy types of the lodging sector: 1) do-it-all differential types, 2) internalized resources controller types, 3) narrow focused marketing innovator types, 4) efficiency/quality controller types, and 5) geographical focused price leader types.

The types of strategy choices more related to the context of the current study are the competitive methods⁵ that were found by Olsen and Zhao (2002). Their two-year investigation focused on the forces driving change in the global food service industry and identified competitive methods by multinational firms. The competitive methods include strategic expansion into the global marketplace, investment in technological development, internal competency development, new product/service development, effective communication to the target market, and pricing strategies. Their findings are more associated with actions rather than the outcomes of strategy choices that are found in a generic strategy typology like Porter's. Their study implies that the restaurant industry's emphasis on strategy choice is unique and that new strategy choices will be required according to the future change in environments.

In the following table, types of strategic choices are summarized according to three main approaches: Business scope, Distinctive competencies, and Strategic posture. It should be noted that the strategies are not strictly identical throughout literature and that they are somewhat arbitrary. The literature is replete with different formulations, with advocates for their validity and their identifications have undergone change and adjustment according to the particular context or the conceptual preference of researchers (Pecotich, Purdie, & Hattie, 2003).

The list of strategic types is not exhaustive, but it serves as a sufficient basis for generating a set of strategies that are available to the casual dining industry firms. At this stage, the current study does not state a hypothesis, since the purpose is to develop a set of strategy choices through literature review and content analysis testing. The content analysis involves the development of alternative explanations for strategy choice in an empirical context. While content analysis is used to identify strategies within the casual dining industry, the general theoretical proposition is that strategy choices in the casual dining industry are structured as proposed by previous research on strategy typology.

⁵ Competitive methods are bundles of goods and services combined in unique ways so as to produce a sustainable competitive advantage.

Table 2: Comparison of Dimensions Found in Key Studies

Approach 1 Glueck and Jauch (1984).	Business Scope										
	Stability		Internal Growth				External Growth		Stability	Retrenchment	
							International Expansion ⁶	Business Governance/Relationship			
Approach 2 Porter (1980)	Distinctive competences										
	Cost leadership	Cost Leadership Focus	Differentiation Focus	Differentiation					Stuck-in-the middle		
				Market	Quality	Product					
Approach 3 Miles & Snow (1978)	Defender		Analyzer, Prospector					Reactor			
Venkatraman (1989)	Defensiveness		Proactiveness, Riskiness, Futurity, Analysis, Aggressiveness								
Strempek (1997)	Plan/ Control		Plan/ Control, Proactiveness, Risk aversion								Vigilance
Draman, Lockamy, & Cox (2002)	Cost-based	Contraction		Market-based	Quality-based						
Olsen, Zhao, Cho, & West (1996) : Lodging Sector	Pricing tactics Cost containment; Service quality management		Frequent guest Program Niche marketing and advertising Special services for frequent guests Business services Core business management	Computer reservation systems Direct to consumer marketing	Service quality management Employees as important assets	Amenities Branding Technological innovation In-room sales and entertainment Database management	International expansion	Strategic alliance Franchising and the management fee	Pricing tactics	Conservation/ecology programs	

⁶ Hospitality firms commonly enter the international market through a form of the external growth strategy such as franchising, management contracts, mergers and acquisitions, and strategic alliances/partnerships/co-branding (Olsen & Zhao, 2002).

Approach 1 Glueck and Jauch (1984).	Business Scope										
	Stability		Internal Growth				External Growth		Stability	Retrenchment	
							International Expansion	Business Governance/ Relationship			
Approach 2 Porter (1980)	Distinctive competences										
	Cost leadership	Cost Leadership Focus	Differentiation Focus	Differentiation					Stuck-in-the middle		
				Market	Quality	Product					
Approach 3 Miles & Snow (1978)	Defender		Analyzer, Prospector					Reactor			
Vandermerwe, Lovelock, & Taishoff (1994)	Minimizing costs				Leveraging information technology to deliver value Building of efficient service delivery systems Defining service standards and performance	Differentiation of market offerings	Delivering services across countries	Reliance on local versus expatriate staff	Mobilization of people and partners		
Shaffer (1988) : Lodging Sector	Internalized resources controller types		Narrow focused marketing innovation		Quality control	Differentiation			Geographical focused price leader		
Pearce and Robison (1994; 2003)				Market development		Product development Innovation Concentric diversification Conglomerate diversification		Vertical integration Horizontal integration Joint venture and alliance		Turnaround Liquidation Divestiture	
Olsen & Zhao (Olsen & Zhao, 2002) : Restaurant Sector				Effective communication with the target market	Internal competency development	New product/services development	Strategic expansion into the global marketplace		Pricing strategies		Investment in technological development

Business Scope: Growth and Retrenchment

Since the strategy typologies proposed by Porter (1985) and Miles and Snow (1978) have been dominant for decades, researchers have developed extended or alternative sets of strategies from the perspectives of three broad strategic dimensions: Business scope, distinctive competences, and business governance. This study complies various strategy choices in three dimensions and the divisions between the approaches.

The first approach which is designated as business scope suggests that corporations pursue three generic types of strategies: growth, stability, and retrenchment. Glueck and Jauch (1984) introduced a complex matrix that involves expansion, retrenchment and stability across products, markets and functions. Their typology introduces the concepts of stability and external versus internal aspects of growth and retrenchment.

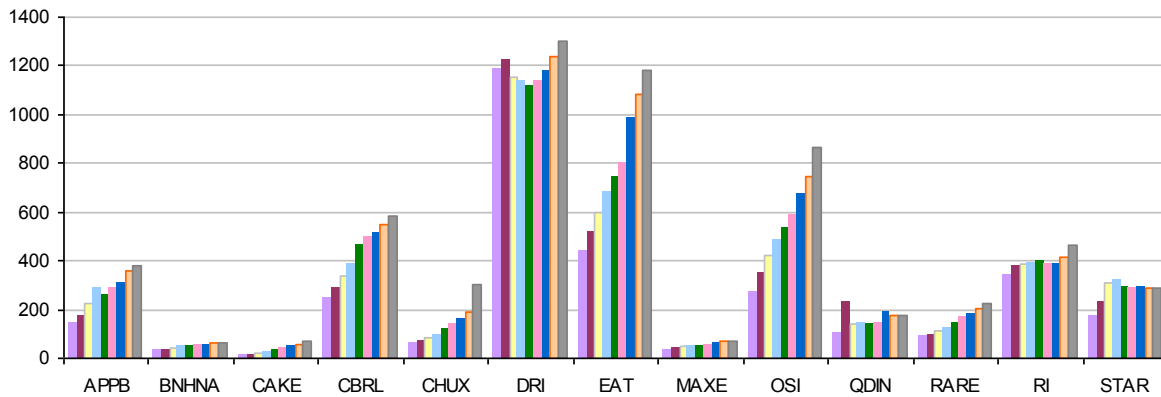
Internal Growth Strategy Choice

The growth strategy choice has been long discussed as a typical strategy to compete within the market (Shortell and Zajac, 1990; Barnett, 1993; David et. al., 2002). The growth strategy choice means an increase, expansion, or entry of a firm into particular products and services, segments, and geographic markets. It is generally achieved through internal growth such as unit growth, or product/service development or through external acquisitive growth strategy choices like mergers and acquisitions, franchising, or jointly developed with other companies (Glueck, 1976, 1980; Rowe, 1982). Many researchers, beginning with Hofer & Snow (1978), insist on the importance of expansion and contraction. A growth strategy choice is usually measured by unit growth, sales, or asset growth.

The growth strategy appears to have been the most dominant strategy choice in the hospitality industry (Chathoth & Olsen, 2007). The casual dining industry, like other restaurant industry sectors, tends to seek growth by *unit expansion*, though growth in this manner causes the industry supply to exceed customer demand (Figure 7 & Table 3). Most casual dining companies usually increase their sales by increasing the number of units through franchising, joint ventures, or other strategic alliances (Sen, 1998). Adding more establishments has gained prominence as a route to achieve competitive advantage due to two factors. First, store expansion allows the company to achieve economies of scale in promotion and other marketing activities,

which leads to a competitive cost structure (Carney and Gedajlovic, 1991). Shane (1996) insists that reaching the size where economies of scale can be capitalized on is very important to the future success of a firm's performance. Thus, the *unit expansion* becomes a significant part of a firm's strategy. Secondly, an increase in distribution channels contributes to the growth of a restaurant's brand name by exposing its brand more to customers. Since a brand provides information to consumers about the restaurant's price and quality levels (Norton, 1988), the early accumulation of brand recognition provides important first mover advantages to the firm (Lieberman and Montgomery, 1988). This argument might be supported by the superior performance of branded chains when compared to independent restaurants in the U.S. While companies seek growth by acquiring other competitors, resources may be also allocated to increase a large market share by providing reasonably priced products to consumers quickly and conveniently. (Hitt & Ireland, 1985). As a result, price leadership could be gained by a dominant company so that others follow its price lead. Some early researchers like Hofer & Snow (1978) and Buzzell, Gale & Sultan (1975) also support this idea.

Figure 6: Unit Growth of Casual Dining Restaurant Companies between 1997- 2006



Data Source: SEC Filings

Table 3: Unit growth of Selected Casual Restaurant Chains, 2005-06

Company	Sales growth	2005 units	2006 units	Unit growth	Non-unit growth*
Chili's Grill & Bar	8.9 %	1,022	1,146	12.1 %	-3.2%
Applebee's Neighborhood Grill & Bar	8.4 %	1,732	1,930	11.4%	-3%
Red Lobster	5.7 %	648	682	5.2%	0.5%
T.G.I. Friday's	4 %	549	577	4%	0%
Olive Garden	5.7	562	582	3.6	2.1
Outback Steakhouse	0.8	775	786	1.4	-0.6

Note: Non-unit growth is calculated by subtracting unit growth from total sales growth and is used here as a rough indicator of comparable sales growth.

Data Source: Mintel

External Growth Strategy Choice

A franchise is a contractual arrangement between two legally independent firms (franchisor and franchisee) and is the most common form of external growth strategy choice in the casual dining industry, as it is a means of growth that is similar to external expansion acquisitions, mergers⁷, consolidations⁸, and joint ventures as suggested by Glueck and Jauch (1984). There are currently about one million franchised outlets in the United States across all industry sectors and they account for more than 40 % of U.S. retail sales. Franchising has been a very popular business format in the hotel and restaurant industry. While franchisors do not bear the full costs and benefits of their business, hospitality firms, especially restaurant firms, use franchising to create large chains rapidly, assuming rapid growth to be desirable.

The literature suggests two viewpoints for the presence of a franchising strategy choice—the resource scarcity view and the agency view (Combs & Ketchen, 1999, 2003). According to the resource scarcity view, franchising becomes a dominant strategy choice in order to overcome resource constraints on growth. While the scarcity and costs of financial, informational, and human resources render firms unable to expand their businesses, franchising enables the franchisor to efficiently utilize franchisees' resources in the short run. Under the agency view, while firms are unable to efficiently monitor their managers as they grow, franchising can overcome conflicts associated with the operation of a chain of dispersed units (Brickley, Dark, & Weisbach, 1991). Franchisees are owner-managers who bear the residual risk of their operations.

⁷ one business loses its identity

⁸ both businesses lose their identity, and a new business arises

In brief, as a result of rapid growth, low capital requirements, low monitoring costs, and low risk due to a franchisee's commitment of managerial and financial resources, many researchers contend that firms using the franchise concept outperform firms with full ownership (Alon, 2001; Anderson & Zeithaml, 1984; Carney & Gedajlovic, 1991; Combs & Ketchen, 1999; Lafontaine & Shaw, 1998).

Most franchise firms choose to have plural forms. That is to say that franchise firms generally own and operate some properties, while others are franchised. Research on franchising systems has recently demonstrated the superiority of plural forms when compared to franchised chains or wholly company-owned units (Botti, Briec, & Cliquet, 2009). While franchising indeed brings speed, financial and human resources to franchisors, we also have seen firms buy their franchised units once the franchise is successful (Oxenfeldt & Kelly, 1968). It is true that a mix of company-owned and franchised outlets is adjusted by franchisor firms over time in order to respond to changes in internal and external conditions.

Diversification

Diversification means dividing investment among a variety of brands or assets or the introduction of new products in new markets (Ansoff, 1965). A diversification strategy is a growth strategy choice in which a firm seeks to develop by adding new concepts to attract new customers. In strategic management, diversification has been very popular topic (Carter, 1977; Hitt, Ireland & Palia, 1982, Chatterjee, 1986, Rumelt, 1974, 1987, 1991), while strategic measures of diversification are still controversial. Wrigley (1970) assessed a company's level of diversification by classifying firms as belonging to one of four distinct categories based on the proportion of the firm's annual sales attributed to its largest single business unit, and the direction of the firm's diversification of related products. Based on Wrigley's four diversification categories -- single business, dominant business, related business and unrelated business and five accounting based performance measures. Rumelt (1974) concluded that companies that have dominant business underperformed firms with other forms of diversification from the period of 1950 through 1970. He also found that the unrelated business category showed not only significantly high corporate growth rates but also low rates of capital

productivity. Firms in the related businesses category generally outperformed competitors, and experienced high growth rates and the highest return on capital.

Diversification helps to reduce risk because different brands or business will rise and fall independent of each other. The combinations of brands or businesses more often than not will cancel out each one's individual fluctuation, therefore reducing risk from the perspective of management. However, financial economists have collected evidence over the last two decades that show how corporate diversification destroys shareholder value as a result of low efficiency of operations (Maksimovic & Phillips, 2002) and also agency problems (John & Ofek, 1995; Scharfstein & Stein, 2000). One of the simple measurements used in the field of finance is to estimate the value of the component parts of the diversified company and compare their sum to the observed market value of the diversified company. Moreover, in light of the evidence, it is necessary to develop more accurate measures of corporate diversification that fully capture firm relatedness and that can be readily available and accessible so as to correctly assess the relationships with environmental conditions (Martin & Sayrak, 2003).

Retrenchment Strategy Choice

A retrenchment strategy choice refers to the reduction or withdrawal of a corporation from a particular product or geographic market. The main goal of the retrenchment strategy choice is to stabilize a company financially so it can recover from a recession through entrepreneurial activities that increase revenues or through efficiency in order to streamline operating expenses and increase profit margins (Pearce, John, & Michael, 2006). Several researchers have claimed that retrenchment should lead to performance improvements because the reduction of expenditures and assets increase efficiency (Dewitt, 1998; Morrow, Johnson, & Busenitz, 2004).

However, the success of cutting output capacity generally depends on good recovery strategy choices that can redirect remaining resources toward more promising markets (Barker III, Patterson Jr, & Mueller, 2001; Grinyer & McKiernan, 1990; Pearce, et al., 2006). The retrenchment strategy choice is not common, but it has been often used during downturns and recessions. Downsizing or cutting back the scope of a business is often used as a quick fix for

financial challenges or a way to survive rather than a strategic choice to prepare for winning during the next recovery.

Distinctive Competencies

The second approach is an expanded view of Porter's strategy typology-- cost leadership, differentiation, and focus. According to the competitive advantage model of Porter (1980), a competitive strategy choice takes offensive or defensive actions to create a defensible position in an industry. In doing so, the strategy choice can successfully cope with competitive environmental forces and generate superior performance over competitors, thereby achieving a sustainable competitive advantage within an industry. Porter's generic strategies detail the interaction between cost minimization strategy, product differentiation strategy, and market focus strategy.

Achieving cost leadership suggests that a firm can minimize the costs of producing or delivering its products and services and that cost leaders must achieve parity on the basis of differentiation (Porter 1980, 1985). Specifically, cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in all activities in the firm's value chain (e.g. R&D, service, sales force, and advertising). Differentiation is attained through many features that make the product or service appear unique. A firm seeking to be unique within its industry may be able to charge more for its differentiated products or services, but if the associated costs are higher than the price premium, the firm may be susceptible to cost pressure from competitors. Differentiation specifically means creating unique design and brand images, technology, innovations, features, customer services, and dealer networks. The last generic strategy, focus strategy, means concentrating on a particular customer or buying group, product line, geographical area, channel of distribution, and industry segments in order to both effectively and efficiently serve the market. The strategy is typically integrated with either cost leadership or differentiation strategy, by applying cost leadership or differentiation to a segment of the larger market.

Cost Advantage

Cost advantage is a strategy choice in which a business seeks out and secures a cost advantage in lower average costs, lower labor costs, or lower utility costs. Haktanir & Harris (2005) in their performance measurement case study, found that in restaurants, the food and beverage department, general manager, and regional executive heavily focused on cost related measures to assess performance. According to Porter's framework, a business can maximize performance either by striving to be the lowest cost producer in an industry or by differentiating its line of products or services from those of other businesses; either of these two approaches can be accompanied by a focus of organizational efforts on a given segment of the market. Alessandri & Bettis (2003) found clear evidence that companies at the top or near the top of their industry, especially in downturns, have innovative strategy choices that are differentiated from competitors and are able to maintain strong cost position. Buzzell, Gale & Sultan (1975) and Galbraith & Schendel (1983) suggested a harvesting strategy choice that reduces investment, causing the market share to drop, in order to control costs and to have cash flows and profitability. Several studies indicated that emphasis in technology and research & development could lead to a decrease in total production cost (Suarez & Utterback, 1995; Wu, et al., 2007; Zahra, 1996). Further, Treacy & Wiersema (1995) insist that a type of market leader has operational excellence by maintaining low costs like Wal-Mart. Some systems are initiated in parallel so that a business will be able to then choose the most appropriate technology at the latest date. Extensive testing new technology in actual use before a launch is made and speed of entry have been clearly proven to sustain long term low cost and increase reliability.

Differentiation

Differentiation can be sub-divided into product/service differentiation, quality differentiation, and market-based differentiation. Internal competency development to pursue quality differentiation is associated with training and education for employees. Environmental factors such as food borne diseases and *safety and health* issues, as well as the needs for quality of food and service, remind restaurant executives that training and education are ways to gain strong performance over competitors. With a continued focus on service quality resulting in customer satisfaction, many restaurant firms have established quality control and employee

training programs (Olsen and Zhao, 1998). Human resource management for internal competency development is often discussed as a countercyclical strategy over the business cycle (Navarro, 2002). Greer and Ireland (1992) suggested that “counter cyclical hiring may...provide a company with a competitive advantage. By engaging in bargain hunting downturns and hiring talent that would probably not be available during upturns, a company may gain a critical edge over its competitors”. As Olsen and Zhao (1998) note, the restaurant industry has used technology and employee training as a means to boost productivity and efficiency.

Extending from Porter’s (1980) differentiation strategy, the market-based differentiation strategy choice is linked to an investment made in order to communicate with business environments and target markets. Communicating to the market is not limited to advertising that occurs as a continuous tactic but rather is used as a strategy choice that is made whether the industry demand is in a boom or in a slow period. As Olsen and Zhao (2002) identified in their study on the restaurant revolution, effective communication with the target market involves all activities that fulfill social responsibilities (e.g. public commitments and environmental awareness and advocacy), database marketing, and advertisement.

Business is an important part of society, not an isolated operation, so a firm’s social responsibility is necessary for its sustainable and long term development. Interdependence between a company and society implies that both business decisions and social policy must follow the principle of shared value (Porter & Kramer, 2006). Firms are generally reluctant to move toward active investments in social responsibility, simply thinking that social responsibility is not compatible with their financial performance but a burden causing expenses. However, recent studies have shown that firms engaging in business social responsibility benefited from improved financial performance and sales, strengthened brand image, reduced risks (e.g. risks of being the target of lawsuits or consumer boycotts), and reduced costs (Laszlo, 2003; Lee, 2008).

Common justifications for the need for corporate social involvement in order to gain competitive advantage are moral obligation, sustainability, license to operate, and reputation (Porter & Kramer, 2006). Reputation is the most common goal of social responsibility for a firm. It means that corporate social responsibility initiatives will improve a company’s image, its brand image, and consumer loyalty (Kotler & Lee, 2008; Olsen & Zhao, 2002; Porter & Kramer,

2006), enliven morale (Laszlo, 2003; Porter & Kramer, 2006), attract socially conscious consumers and employees (Laszlo, 2003), and accordingly increase its value (Mackey, Mackey, & Barney, 2007; Porter & Kramer, 2006).

Database marketing involves customizing products and services to suit target markets (Saxena, 2005). Given developments in information technology and communication channels, it has become easier to create a large computerized database of existing and potential customers' profiles and purchase patterns. Tracking and monitoring the database makes it possible to serve the right customers with right products, services, and messages (Olsen & Zhao, 2002). Such an effective and efficient means of marketing enables firms to reduce costs as well as to enhance sales. Indeed, many hospitality firms are using their databases for their customer relationship management programs, expanding their distribution networks, and gaining synergy from the cross-selling of different brands.

The rapidly shifting technology environment has created new communication channels in the target market. Advertising involves moving beyond traditional methods and evolving into social and mobile network. Companies tend to cut their advertising budgets when economic downturns appear (Picard & Rimmer, 1999). However, as advertising is an important demand-stimulating factor, advertising should be used to improve competitive position and keep sales up during the downturn (Deleersnyder, 2003).

Casual dining restaurant companies have usually spent about 3 to 4.5% of total sales on advertising and promoting their products and services. Advertising expenditures for most leading casual restaurant chains between 2004 and 2005 have significantly increased by 7-28% (Table 4). In 2008, chains seem to have cut their advertising budget in the face of the slow market growth, but Chili's aggressively increased its spending on marketing and advertising campaigns.

Table 4: Media Expenditures for Leading Casual Restaurants, 2004-08

Chain		Applebee's	Chili's	Olive Garden	Red Lobster	T.G.I. Friday's	Outback Steakhouse
2004	\$million	136	106	99	90	71	74
	% of sales	3.5	3.9	4.4	3.7	3.9	2.9
2005	\$million	165	121	111	115	85	79
	% of sales	3.9	4	4.6	4.7	4.3	3.1
2006	\$million	174	125	112	103	87	72
	% of sales	3.8	3.8	4.3	4	4.5	2.7
2007	\$million	163.9	75.9	131.2	125.5	97.6	88.2
	% of sales	3.6	2	4.7	4.8	3.5	2.9
2008	\$million	154.3	112.6	145.7	118.1	86.6	80.7
	% of sales	3.4	3	4.6	4.5	3.2	2.7
Change 2004-05		21.32%	14.15%	12.12%	27.78%	19.72%	6.76%
Change 2005-06		5.45%	3.31%	0.90%	-10.43%	2.35%	-8.86%
Change 2006-07		-5.80%	-39.28%	17.14%	21.84%	12.18%	22.50%
Change 2007-08		-5.86%	48.35%	11.05%	-5.90%	-11.27%	-8.50%

Note: Data are collected and estimated based on reports by Mintel/Technomic

Strategic Orientation /Posture

Porter's (1980) differentiation, focus and cost leadership appears to be a direct classification of strategy choices entailing the target market scope (e.g., broad vs. narrow), competitive weapons (e.g., low cost vs. differentiation) and segment differentiation (same vs. distinct competitive weapons across different market segments). On the other hand, Miles and Snow's (1978) classification of defenders, prospectors, analyzers, and reactors may be seen as a classification of firm's behavior or overall strategic posture or orientation of the firm (Carneiro, da Silva, & da Rocha, 2010; Pecotich, et al., 2003).

Miles and Snow (1978) established research on strategy types depending on how a firm responds to the three major types of problems facing the firm: entrepreneurial, engineering, and administrative. According to their study, the four strategic types of organizations are as follows (Miles, Snow, Meyer, & Coleman Jr, 1978) p.20-23:

- *The defender deliberately enacts and maintains an environment for which a stable form of organization is appropriate. Stability is chiefly achieved by the Defender's definition of, and solution to, its entrepreneurial problem.*
- *Prospectors respond to their environment in a manner that is almost the opposite of the defender. The prospector enacts an environment that is more dynamic than those of other types of organizations within the same industry.*
- *The Analyzer is a unique combination of the prospector and defender types and represents a viable alternative to these other alternatives. A true analyzer is an organization that attempts to minimize risk while maximizing the opportunity for profit. Analyzer combines the strengths of both the Prospector and the defender.*
- *The Reactor exhibits a pattern of adjustment to its environment that is both inconsistent and unstable; this type lacks a set of response mechanisms which it can consistently put into effect when faced with a changing environment.*

Two of Miles and Snow's dimensions, analyzers and prospectors, share similar features with the growth strategy and reactors in that they assume failure is to some extent related to the retrenchment strategy. In this line of research, Venkatraman (1990) developed the theoretical underpinnings of strategic orientation constructs--aggressiveness, analysis, defensiveness, proactiveness, and riskiness--and found that two constructs (i.e. analysis and proactiveness) are correlated to sales growth.

Although the types of strategy choices have been given much attention in the field of marketing, organizational economics, corporate finance, and strategic management, most research has been limited to descriptive or conceptual analysis. Moreover, the types of strategy choices are too general to be operationalized in testing their relationships with environment and firm performance. Strategy measures used in empirical literature are also perspective measures or a single choice from an exhaustive set of strategic alternatives. Another observation that should be considered is that a strategy choice may yield a low return when considered in isolation. The casual dining industry is a food service industry where production, delivery, and consumption simultaneously occur on premise. This may demand a different set of strategic choices from the traditional typologies that were developed in the manufacturing industry. Identifying the industry-specific types of strategy choices available to the casual dining industry

would even allow us to understand the industry structure. Believing that the industry is characterized by its own critical success factors, the following proposition has been prepared:

Proposition 2: The casual dining industry has distinctive types of strategy choices

Strategic Responsiveness to Environmental Change

Environmental changes or surprises reshape the opportunities and threats that businesses face. Dynamic changes in business environments may force firms to adopt new strategies and render existing strategies ineffective (Meyer, Brooks, & Goes, 1990).

Duncan (1972) and Bourgeois (1980) classified environment into perceived and objective perspectives. The environment can only have an impact if it is perceived as having an impact (Slattery & Olsen, 1984). Despite the claims that several studies found strong associations between subjective assessments and objective assessments of the environment (Dess & Robinson, 1984), it has been found that the perceived environment differs from the objective environment (Hambrick, 1982; Olsen, Tse, & West 1992). Although perceived and objective environments are not identical, the perceived environment has more often than not been investigated in research because it is the perceived environment that drives decision-making (Duncan, 1972). In aiming to shed some light on the question of how the casual dining restaurant firms perceive environmental change, we first examine the responses of casual dining restaurant firms to changes in the task environment, which is considered an industry cycle in this study.

From the literature review, first-movers often have a better chance to achieve a competitive advantage over followers. First movers who see the environmental change early may have advantages resulting from preemption of scarce resources, greater technological leadership, superior geographic and market positioning, creation of switching costs, and establishment of entry barriers (Lieberman & Montgomery, 1998; Robinson & Chiang, 2002). However, firms adapting quicker do not always position themselves well to generate longer-term results. During recession or downturns, firms cutting investment expenditures or divesting from non-core businesses may ensure short-term survival but the resulting reduction in the firm's capacity might leave its unable to take advantage of opportunities in the recovery or upswings of business environmental conditions (Smallbone, North, & Kalantaridis, 1999).

The business/economic or industry cycle creates upturns, downturns, recession, or booms. Most researchers, similarly to Churchill and Lewis (1984), have focused on the firm's strategic adaptation to a recession, using the economic/business cycle rather than the industry cycle. Churchill and Lewis (1984) investigated the different effects of recessions on a cyclical industry and a countercyclical industry. The performance of a cyclical industry coincides with the phases of the business cycle. Therefore, in a recession, a cyclical industry is characterized by stable or falling prices, decreases in company spending, declines in real earnings, excess production capabilities, and high unemployment. Examples of cyclical industries include durable goods manufacturers, computer manufacturers, home builders, real estate sales, travel, media, and electronics. There are also counter-cyclical industries. Counter-cyclical industries experience increased sales during recessions. While rare, such industries include insurance, food, home remodeling and maintenance, and alcoholic beverages. The performance of non-cyclical industries is less related to the state of the economy. During periods of recession, consumers must continue their expenditures on necessary products such as food and health care.

Firms tend to severely cut their advertising budgets during downturns or times of poor economic conditions (Picard & Rimmer, 1999). However, as advertising is an important demand-stimulating factor, it often raises the question whether advertising may serve as a counter-cyclical instrument to keep sales up during a downturn. To date, evidence exists that increasing advertising during economy downturns, when competition is low and more capital is available, can benefit individual firms (Srinivasan, Rangaswamy, & Lilien, 2005). For example, Procter and Gamble consistently spent money promoting its brands, while viewing recessions as opportunities and exploited the perceived opportunity with aggressive marketing programs during the depression in the US in the 1930s. Intel Corporation invested in its "Intel Inside" brand-building program and aggressively promoted its brand during the period of recession from 1990 to 1991 (Srinivasan, et al., 2005).

Srinivasan, Rangaswamy, & Lilien (2005) examined the nature of a firm's response to a recession, especially with respect to marketing, through a survey of 154 senior marketing executives. Their results found that firms that have a proactive marketing response in a recession achieve superior business performance even during the difficult time, however if a recession is too severe, proactive marketing strategy choice was ineffective.

Researchers in strategic management and marketing have been interested in certain recession investment strategy choices such as research and development (R & D), marketing, and retrenchment through cost and limited asset reduction. Using the Profit Impact of Market Strategy (PIMS)⁹ database, Roberts (2003) found evidence that marketing spending does not damage profitability significantly in a recession and helps set the platform for strong recovery. He also proposed that R & D spending is advantageous during a recession as new product introductions during recession are crucial to strong recovery in profitability and growth. Morrow, Johnson, & Busenitz (2004) investigated the role of competitive environments for the relationships retrenchment strategy choices and firm performance and concluded that different industry conditions—growth, mature, and declining industry environments--led to different outcomes of asset and cost retrenchment strategy choices. According to their analysis, asset retrenchment strategy choices help to improve performance in growing industries, while it had a negative effect on firm performance in declining industries. They suggested that firms in declining industries need to focus on cost retrenchment to gain efficiency.

According to PIMS-based analysis in regard to turnaround strategies, retrenchment such as cutting output capacity and outsourcing, however, seem not to hinder profit and share improvement during recovery (Pearce & Robinson, 2003). The main goal of retrenchment is to stabilize companies financially so they can recover from the recession through entrepreneurial activities that increase revenues or through efficiency to streamline operating expenses and increase profit margins (Pearce & Michael, 2006). Recession often leads to financial resource scarcity and falling sales. In difficult times, firms often focus on short-term survival by reducing capacity and operating costs, rather than on long term goals (Kitching, Blackburn, Smallbone, & Dixon, 2009). Thus, the recovery strategic choices implemented after cutting output capacity should be used to redirect the remaining resources toward more promising markets for long-run survival (Grinyer & McKiernan, 1990, Pearce & Robbins, 1994 and Barker et al., 2001).

The casual dining restaurant sector has grown rapidly last decades. Many casual dining restaurant firms have followed the growth strategy choice by simply adding new units to the existing market. Yet the expansion strategy choice appears not to work as restaurant supply exceeds customer demand. Moreover, the existing market has been fluctuating due to the

⁹ PIMS is a program that provides marketers with a database summarizing the financial and market performance of strategic business units (SBUs) in thousands of companies in major industries.

declining economy. To overcome the threats posed by environments, leading firms have appeared to increase marketing efforts within existing markets, redefine their target markets, or invest resources in new technologies to gain efficiency. This study attempts to examine the evolution and patterns of strategy choices that are made by casual dining firms, over the industry cycle. Assuming casual dining firms perceive the external environment as a source for strategic decision making, this study set up the following proposition:

Proposition 3: Casual dining restaurant firms change their strategic choices in response to changes in the industry cycle.

Environment, Strategy, Structure, and Performance: Co-Alignment Principle

The question of what drives a firm's strategy choice and what creates the firm's competitive advantage has been central to the interests of the strategic management literature. A stream of researchers has sought to unravel this question by understanding the firm's fit with environment, strategy, structure, and performance. The interaction of these four constructs is summarized in the co-alignment model. The co-alignment principle purports that, "if the firm is able to identify the opportunities that exist in the forces driving change, invest in competitive methods that take advantage of these opportunities, and allocate resources to those that create the greatest value, the financial results desired by owners and investors have a much better chance of being achieved" (Olsen et al. 1998). The four constructs in the model--environments, strategy, structure, and performance--must be aligned with each other so that executives make correct investment choices that will add sustainable value to the firm. Researchers, using phrases such as 'matched with', 'contingent upon', 'aligned with', and 'fit', have assumed that a company that aligns its strategic resource allocation to the requirements of its environmental context perform significantly better than a company that does not achieve the requisite match. This has been an important organizing concept in organizational research including strategic management. However, the literature has not necessarily provided precise guidelines to translate the concept into the operational domain of empirical research (Venkatraman & John, 1990).

With Chandler (1973), Ansoff (1965), and Andrew (1971), strategic management research shifts from a deterministic one-best-way approach to a more contingent perspective, in

which organizations need to adapt to their external environments. Since then, many researchers have attempted to identify relationships between environment, strategy, structure, and performance, and, ultimately, sources of competitive advantage. The literature of industrial organization economics developed models from the structure-conduct-performance (SCP) paradigm, and Porter (1980; 1987) outlined frameworks to understand industry structure that affect competitive advantages. The research focus shifted from SCP, where competitive advantage is primarily determined by environmental factors, to the resource based view (RBV) that highlights how the possession of valuable, rare, inimitable, and non-substitutable resources may result in sustained superior performance (Barney, 1991). In addition, the resource based view literature progressed to find a relation between firm resources and performance. Following the seminal work of Penrose (1959), RBV conceptualizes a firm as a bundle of productive resources with different firms possessing unique bundles of these resources. Important theoretical development of RBV then was done by Barney (1991).

Hospitality strategic management research has evolved in a way similar to that of evolution of strategic management research in the mainstream of business, and researchers have tried to theorize connections between environment and other constructs of the co-alignment model, such as strategy choice, structure, and performance. This effort is often referred to as the co-alignment principle (Olsen, et al., 1998, 2007). According to the co-alignment principle, effective strategic management focuses upon identifying existing and emerging forces driving changes in the various categories of the environment and determining how these changes impact the choice of strategy, structure and the firm's overall performance. The co-alignment principle is a comprehensive view of strategic management that explains the relationship amongst key elements of the strategic decision making process in a firm (Olsen, 1980; Reid & Olsen, 1981; West & Olsen, 1988; Dev & Olsen, 1989; Turnbull, 1996; Zhao, 1994; Chathoth, 2002; Chathoth & Olsen, 2007). The elements that fall within the purview of the principle are: 1) forces driving change in the environment in which the firm competes; 2) strategies in which the firm invests in order to add to its financial value; 3) business structure must follow in conjunction with strategies identified; and 4) the firm's performance evaluation.

The development of the co-alignment model began with the work by Olsen and Bellas (1980) in hospitality research. Their research was followed by Reid and Olsen (1981) who

offered to the independent food service operator a strategic planning model which included environmental scanning as the first step, although environments and value drivers are not sufficiently conceptualized. There have been many additional efforts to investigate the relationships between the environment and other constructs in the co-alignment theory. Olsen and DeNoble (1981) applied the environment concept to the hospitality industry, attempting to integrate the concepts of the organizational life cycle, firm technology, and environment. Using Tompson (1967)'s notion of protecting the firm's technological core from the uncertainty of the environment, the study illustrated how understanding the environment can positively affect strategic planning. Slattery and Olsen (1984) made a further contribution to the development of the co-alignment theory. Using the systematic view of Bertalanffy(1950) and Child (1972), they were able to postulate a relationship between environmental forces and firm's response to the environment. Another attempt to measure the relationship between environmental scanning and firm performance in the hospitality industry was made by West and Olsen in 1988. Using Porter's industry structure for measuring environmental variables and Hambrich's (1979) multi-method, they found that high performing firms engage in significantly greater amounts of total scanning than do low performers when compared on the return on sales. Dev (1989) and Dev & Olsen (1989), later, investigated the relationship between environment uncertainty, business strategy and performance in the lodging industry, using measure and scales of Miles and Snow (1978). The study suggested that an optimal pattern or fit exists between the environment and the firm's business strategy and that in those firms where the fit was better, performance would be higher.

Kim (1993), Turnbull(1996), and Zhao (1994) studied the environment and its effects faced by multinational hospitality organizations, mostly using Delphi techniques. Zhao identified the relationship between entry modes and the antecedent factors affecting them. Turnbull (1996) further studied how forces influence specific financial parameters involved in the funding of international investment. The exploratory nature of these works helped better understanding of the degree of "match" between the external and internal environments that can affect the entry mode. Jogaratnam (1996) also tested the contingency effect that environmental munificence may have on the relationship between strategic posture and performance at the level of the business unit.

Although researchers have used many conceptual frameworks and applications (Arbel, Dunning & McQueen (1981, 1982), Hiemstra, and Choi (1998), they seem to provide insufficient evidence to explain alignment in the strategic management process. This might be because it is difficult to model the relationships due to the contingency of environmental fit. It also should be noted that the fit using Porter's environmental forces and generic strategies or Miles and Snow's concepts might not work for the hospitality industry. Given these limitations, we need to develop our own approach to the complex interactions in the industry. Most early works have weaknesses in methodologies and statistics regarding the lack of process explanations, validity, and reliability. The misuse of unit of analysis (e.g. Hiemstra's work) suggests that understanding the industry structure is critical to develop a model for the alignment.

Empirical evidence generally supports the relationship between strategy and performance. For example, Miller and Friesen (1978) identified ten different strategic types. Six of these strategies were generally successful (i.e. adaptive firm under moderate challenge, adaptive firm in very challenging environment, dominant firm, giant under fire, entrepreneurial conglomerate, and innovator). The remaining four strategies were unsuccessful (impulsive - running blind, stagnant bureaucracy, headless giant, swimming upstream). Using the two most prominent strategy typologies by Miles and Snow (1978) and Porter (1980), we gain evidence of performance difference among types of strategy choice and positioning (Dess & Davis, 1984; Hambrick, 1980). Another stream of researchers used more operationalized ways to group firms according to their strategy choices, rather than the generic strategy typology. They have found significant performance differences among the strategic groups in insurance, oil drilling, or pharmaceutical industry (Fiegenbaum & Thomas, 1990; Mascarenhas & Aaker, 1989). This line of researchers believe that membership in an intra-industry strategic group can substantially influence individual firm performance. Strategic groups have similar business models or similar combinations of strategies. The significant effect of strategic group membership on individual firm performance implies the important linkage between strategic choices and firm performance. Fox, Srinivasan, and Vaaler, (1997) found evidence that approximately 39% of the variability in firm return was explained by strategic group membership. Using hierarchical linear modeling to simultaneously estimate firm's, strategic group's, and an industry's impact upon short-term and

long-term measures of performance, Short, Ketchen Jr, Palmer, and Hult (2007) found that firms, strategic groups, and industry levels each contribute significantly to performance.

Different phases of the industry cycle create different opportunities and threats. Matching the mix of strategic choices to each phase will help to grasp the opportunities and buffer the risks. As the fit among environment and strategy choice is an important determinant of firm performance, the following proposition was investigated in this study:

Proposition 4: The timing of strategic choices over the industry cycle determines their superior or inferior investment returns; the effects of strategic choice on firm performance vary with each phase of the industry cycle.

Interval and Duration between Strategy choices and their Effects

The effects of strategic decisions might appear quickly but the strategy choices often create value over time. A temporal interval and duration would be necessary for the cause to be affected (Kelly & McGrath, 1988). Specifically, the role of time in the causality relationship implies not only that it takes time for the effect to start to occur but that it also takes a finite amount of time for the strategic decision to produce the effect. Temporal consideration in studying decision making is crucial for the robustness of the causal relationship especially in strategy-performance relationships.

While there is very little theoretical or empirical guidance on temporal interval or duration of cause effect relationships, evaluating the quality and duration of strategy choice is critical in order to estimate the outcomes of the investment. Some effects of strategy choices may take place in a time interval too small to be measured with given methods or using annual data. Moreover, most strategy choices have their lifespans over years. The lifespan of a strategy choice is an important determinant for estimating firm's performance associated with the choice (Olsen, et al., 2007).

While it is true that many strategic decisions may begin to impact organizations shortly the decision is made, the full consequences of the decision are likely to take several years to occur. However, there is little consistency across studies on the effects of strategic decisions on any aspect of the selection of time intervals and duration. Carlson, Kim, Wu, Hatfield, and

Braekkan (2008) examined how researchers operationalize impact in a sample of 55 empirical studies of strategic decisions and conclude that there was very little consistency across studies in the choices of time interval and durations. The most common choice of time interval was to use data lagged one year from the point of the strategic decision, while most approaches used were unique to each study. In their study, Carlson et al. (2008) found that almost half of all studies used data from one point in time or direct comparisons of two year's data to determine the magnitude of impact. Eighteen studies used comparisons involving sums or averages of data across years. Carlson et al. (2008) suggest seven years post investment as an appropriate period to sufficiently cover the planning horizons of most management teams, though firm's size, age, and other competencies influence the lifespan of the investment.

Summary of Literature Review

Firms make decisions every day. Previous literature has suggested that when a firm's decisions are aligned to changes in the external environment, they provide a higher chance to create value for the firm. Environments create opportunities and threats to firms, since they directly or indirectly influence a firm's acquisition of inputs such as human, financial, and raw materials and the level of value created from these inputs. A firm that cannot perceive the patterns of environments may not properly allocate resources and accordingly fail to create the value. In this light, a well structured methodology is needed to conduct a comprehensive environmental scanning and analysis.

The purpose of this study is to help executives to better understand the industry environment and its influence on the outputs of strategic actions. It will guide casual dining firms as to which strategy choices at which times are the best to outperform competitors.

Industry Cycle: External Industry Environment

Most industries or markets follow certain cyclical patterns (Lorange, 2009) so an understanding of the cyclical pattern (or recurrent fluctuation) is a way to recognize changes in the external environment. The industry cycle refers to the recurrent fluctuations of industry output or growth, providing a way to understand industry environments (Tan & Mathews, 2009). Different phases of the industry cycle create different opportunities and challenges for a firm. Contractions or recessions in the industry cycle may have straightforward implications for high competition and low demand. Expansions and recoveries may imply the increase in new entrants, scarcity of raw materials and low customer demand.

The external environment consists of the general environment and the industry environment, which have a hierarchical relationship (Olsen, et al., 2007). Namely, a firm is directly influenced by the industry environment which is in turn influenced by the general environment. The economic cycle (or business cycle) in the general environment is related to the firm's action and its output through the industry cycle. In this context, demand for the casual dining sector in the restaurant industry should be influenced by economic conditions in a different way from other industries. Thus, the restaurant industry is hypothesized to have its own characteristics in terms of its durations and magnitudes.

According to Choi's (1999) analysis using annual data series of the restaurant industry, the U.S. restaurant industry is lagged by the business cycle and it has three cycles (peak to peak or trough to trough) during the period of 1970 to 1998. The restaurant industry experienced high growth (boom) every five years on average. His findings suggest that restaurant industry growth cycles tended to be relatively symmetrical, while the restaurant industry business cycles in the same period showed a strong asymmetry. This study supported the view that there are the unique cyclical fluctuations of the growth of the restaurant industry.

Proposition 1: The casual dining restaurant industry has unique cyclical characteristics (the timing, duration, and amplitude of its fluctuation).

Types of Strategy Choice

The literature on types of strategy or strategic actions is generally categorized into the following three approaches: Business scope, Distinctive competences, and Strategic posture. From the view of business scope, researchers like Glueck and Jauch (1984) identified four grand strategies that strategic managers can adopt: stability, growth, and retrenchment strategies. The dominant strategy of most industries, the growth strategy, is subdivided into internal growth and external growth. A firm internally pursues its growth by product/service development, market enhancement, or quality management. External growth is often achieved through relationships with other entities, such as franchising, management contract, joint venture, or strategic alliance.

The second approach to classifying strategy is based on Porter's (1980, 1985) generic strategy types--cost leadership, differentiation, and focus. Researchers have empirically tested the types (Salavou, 2010; Tse & Olsen, 1988), although their results are mixed. Cost leadership involves a firm becoming the lowest cost provider in an industry, and a differentiation strategy is where a firm seeks product and/or service uniqueness. A focus strategy occurs where a strategy is tailored towards a particular market segment rather than to the entire market and may take the form of cost focus or differentiation focus.

Lastly, Miles and Snow's (1978) strategy typology (Prospector, Analyzer, Defender, and Reactor), has been another major classification of organizational types or postures. Researchers extended the typology to proactiveness, riskiness, futurity, analysis, aggressiveness, defender, and vigilance, while still agreeing that there are business types with superior performance such

as prospector, analyzer, and defender (Elwood & Eliza, 1995; Fernando, Daniel Palacios, & Yeamduan, 2005; Moore, 2005).

Most hospitality literature tends to have applied two dominant typology studies--Miles and Snows and Porter's--with the use of surveys. More operationalized dimensions of strategy in the hospitality context were identified by Olsen and Zhao (2002). Using a different term, competitive methods, they have found the following archetypes of strategies in the multinational restaurant industry: effective communication with the target market, internal competency development, new product/services development, strategic expansion into the global marketplace, pricing strategies, and investment in technological development.

The dominant paradigm of competitive strategy includes Porter's generic strategy types and Miles and Snow's strategy typology. Most contemporary research still follows these two approaches to classify a firm's actions, although many researchers failed to uncover an association between distinctive emphasis on a strategy choice and performance and found it problematic to apply in different business settings (Campbell-Hunt, 2000). The ambiguous or inconsistent empirical results may be caused by simplifying the complex nature of strategic actions. The failure of findings relying on one universal explanation also implies the contingency theory with respect to how fit between environment and strategy affects performance. It is also believed that the characteristics of the restaurant industry business apparently differ from those of other industries. The products, services, assets, and the way of delivering products and services create the differences in business and accordingly demand a different strategic mindset and actions (Olsen, et al., 2007).

Proposition2: The casual dining industry has distinctive types of strategies.

Linking Strategy and Performance to the Industry Cycle

Some firms view environmental forces simply as unanticipated and remain passive and reactive to the environment. Others are proactive by constantly examining the environment in a quest for a new opportunity. Business performance is highly variable under different environmental conditions, causing firms to adopt a variety of strategies to cope with industry upturns and downturns. The co-alignment theory or contingent theory suggests that to achieve meaningful return on investment, executives need to fit their investments with environmental

changes. Namely, once a strategy is implemented, the success of the action is contingent upon the change in the environment.

Increases or decreases in industry demand are likely to require different strategies by restaurant companies. How do firms strategize in these very different industry conditions? This study hypothesizes that, if the co-alignment theory is correct, leading firms should adjust or change their strategies according to changes in the phase of the industry cycle. The industry environmental changes provide different opportunities and threats that force firms to make strategic moves in order to achieve a competitive advantage over competitors. It has been found that that manufacturing or financial firms exhibit strategic changes in response to financial crisis or pressure (Lee & Grewal, 2004; Tan & See, 2004; Wan & Yiu, 2009), and that firms having a significant degree of strategic flexibility tend to perform better in turbulent settings (Dreyer & Grønhaug, 2004). These findings imply that firms do adjust strategies to adapt to the change in external environments and that leading firms should be able to detect changes in environments early and move quickly (Choi, 1998; Olsen et al. 2007).

Proposition 3: Casual dining restaurant firms change strategies in response to changes in the industry cycle.

Strategy choices may be less than optimal for either an up or down market (Mascarenhas & Aaker, 1989, Navarro, 2006). It has been recognized from a conceptual perspective that increasing levels of *product development* should positively influence performance due to economies of scope/scale, market power effects, and learning effects (Christensen & Montgomery, 1981; Rumelt, 1974). However, in reality, firms committing to capital investments in product development often do not enjoy higher performance than their competitors over time. In this study it is hypothesized that, in the context of cyclical industrial dynamics, there is a difference in firm performance in the subsequent period between firms which increase investments in product development during an industry cycle downturn and those which decrease capital investment during such a downturn. Once strategies are implemented, the results of strategic reorientations are sensitive to different environmental situations, and also, strategic

responses and their timing positively influence firm performance (Lant, Milliken, & Batra, 1992; Mizik & Jacobson, 2003).

Research on the relationship between strategic actions over upturns and downturns of an industry output and firm performance is very rare. Most studies on the cyclical behavior of the market focus on strategies during difficult economic conditions at the macro level. Therefore, this study suggests a view on demonstrating in a rigorous way how strategies differ in relation to industry up-and-down swings, and will provide an answer to the questions of the timing of strategic investments in the casual dining industry.

Proposition 4: Timing choice of strategic actions over the industry cycle determines their superior investment returns; the effects of strategies on firm performance vary with each stage of the industry cycle.

An understanding of the type of cyclical pattern is critical for any sector. For firms exposed to this type of cyclical pattern, the industry cycle is necessarily the best basis for making strategic decisions. If executives lack perception about environmental changes, their firms will be merely followers or reactors within the industry.

CHAPTER THREE: METHODOLOGY

This study aims to uncover the relationships among the restaurant industry cycle, strategy choice, and performance. Prior to doing so, the industry cycle and the types of strategy choices need to be clearly identified. Specifically, the proposed research methodology consists of five stages: (1) developing the restaurant industry cycle, (2) categorizing strategies at the industry level (or the casual dining industry), (3) mapping the strategies of individual casual dining firms, (4) investigating strategic responsiveness to the changes of the cycle stages, and (5) examining relationships between the industry cycles, strategy choice, and firm performance. This chapter first revisits the hypothesized model and constructs, outlines the various relationships among constructs, and states propositions. The next sections introduce data and firm selection criteria, define constructs and the operationalized dimensions of the constructs, and introduce the techniques and software to be used in the empirical part of this study.

Hypothesized Model and Propositions

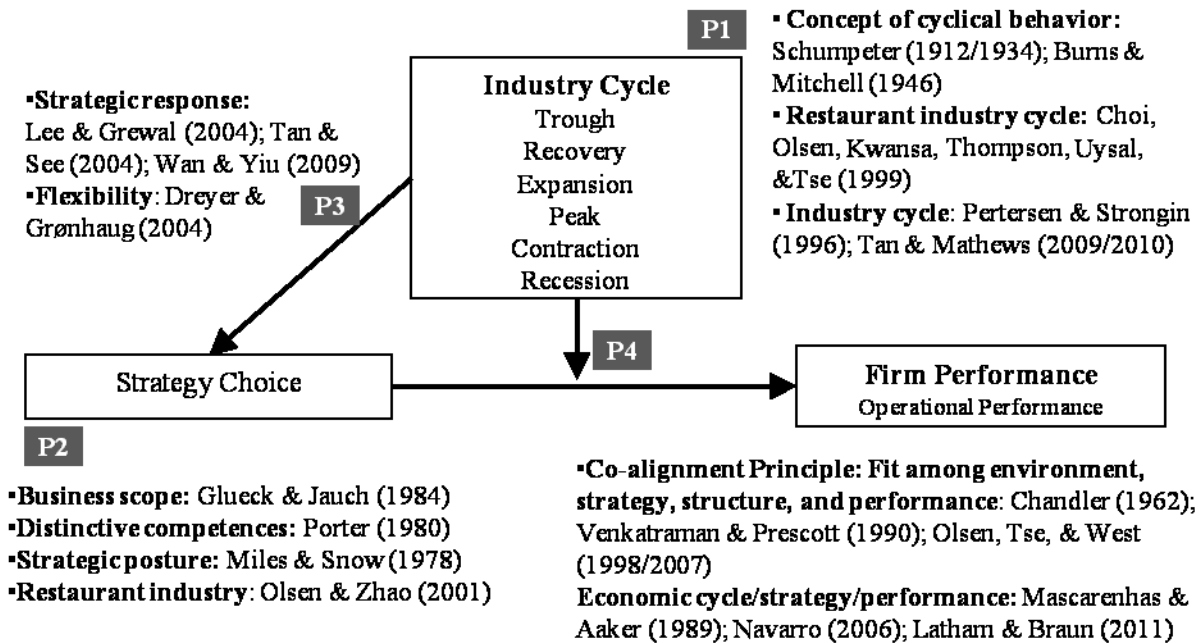
As presented in the previous chapter, the research questions of this study are:

- What is the timing, duration and amplitude of the restaurant industry cycle?
- What are the key strategy choices available to the casual dining industry?
- Do casual dining restaurant firms change or adjust their strategy choices in response to changes in the industry cycle (environment)?
- What role does the industry cycle play in the relationship between strategy choice and performance? What strategies are associated with high performance? Should firms place emphasis on different strategies as the phase of the industry cycle changes?

This study attempts to utilize the theories and practices in the fields of economics, strategic management, corporate finance, and marketing to contribute to the body of knowledge in the hospitality literature by proposing a model. This assists casual dining restaurant industry executives in understanding the patterns of strategy choice over the industry cycle, the effect of industry conditions or cycle on the robustness of a strategy choice and, ultimately, the best

timing of a particular strategy choice. Prior to presenting how the constructs in this study are operationalized, we revisit the model and the proposed relationships as illustrated in Figure 7.

Figure 7: Hypothesized Model and Key Studies for Relationships between Industry Cycle, Strategy, and Performance



Proposition 1: *The casual dining restaurant industry has unique cyclical characteristics (the timing, duration, and amplitude of its fluctuation).*

- Demand for the casual dining sector in the restaurant industry should be influenced by economic conditions in a different way from other industries. Thus, the restaurant industry is hypothesized to have its own characteristics in terms of their durations and magnitudes compared to other industries.

According to Choi's analysis in 1999 using annual data series of the restaurant industry, the U.S. restaurant industry demonstrated three cycles (peak to peak or trough to trough) during the period of 1970 to 1998. The restaurant industry experienced high growth (boom) every five years on average. His findings suggest that restaurant industry growth cycles tended to be relatively symmetrical, while the restaurant industry business cycles

in the same period showed a strong asymmetry. This study supported the view that there are unique cyclical fluctuations in the growth of the restaurant industry.

In the current study, the quarterly data is utilized and it will lead to more accurate and in-depth analysis of the industry cycles than Choi (1999)'s restaurant industry cycle. As Choi (1999) indicated, the possibility of missing many cyclical turning points when the annual data is used should be reduced. The higher frequency of data may also offer different characteristics. The industry cycle in this study also differs from the cycle developed by Choi (1999) where classical cycle and growth rate cycle are used. There are three approaches to develop the industry cycle: classical cycle, growth rate cycle, and growth cycle. The last approach, the growth cycle, is discovered in the current study. The concept of growth cycles can be defined in terms of the deviations of the actual growth rate from the long-term growth rate. This is the most common approach to assessing the cyclical behaviors of the overall economy or a particular industry. On the other hand, the growth rate cycles and classical cycles he used are simple graphic presentations of the total output and its growth rate of industry activity (Figure 10). The growth cycle more accurately presents the cyclical behavior than the growth rate cycle and classical cycle, since the latter ones mix the cyclical components with a long term trend. Hereafter, the industry growth cycle is simply called the "industry cycle".

Proposition2: The casual dining industry has distinctive types of strategy choices

- Over the years, in order to understand the dynamics of organizational strategy and its relationship with environment, structure, and performance, researchers have categorized similarities of strategies, and several typologies of corporate and business-level strategies have been advanced. The characteristics of the restaurant industry apparently differ from other industries. The products, services, assets, and the methods of delivering products and services create the differences in industries and, accordingly, demand a different strategic mindset and actions (Olsen, et al., 2007).

Proposition 3: Casual dining restaurant firms change their strategic choices in response to changes in the industry cycle.

- The increases or decreases in industry demand are likely to require different strategies by restaurant companies. How do firms make strategic choices under these very different industry conditions? This study hypothesizes that, if the co-alignment theory is correct, leading firms should adjust or change their strategies according to changes in the phase of the industry cycle. Industry environmental changes provide different opportunities and threats that force firms to make a move in order to achieve an advantage over competitors. It has been found that manufacturing or financial firms exhibit strategic changes in response to financial crisis or pressure (Lee & Grewal, 2004; Tan & See, 2004; Wan & Yiu, 2009), and firms having a significant degree of strategic flexibility tend to perform better in turbulent settings (Dreyer & Grønhaug, 2004). These findings imply that firms do adjust strategies to adapt to changes in external environments and leading firms would be fast movers.

Proposition 4: *The correct timing of strategic choices over the industry cycle leads to their investment returns; the effects of strategic choice on firm performance vary with each phase of the industry cycle.*

- It has been recognized, from a conceptual perspective, that increasing levels of *product development* should positively influence performance due to economies of scope/scale, market power effects, and learning effects (Christensen & Montgomery, 1981; Robinson & Chiang, 2002; Rumelt, 1982; Verona, 1999). However, in reality, firms committing to capital investment in *product development* often do not enjoy higher performance than their competitors over time. In this study it is hypothesized that, in the context of cyclical industrial dynamics, there is a difference in firm performance in the subsequent period between firms that increase investments in *product development* during an industry cycle downturn and those that decrease capital investment during such a downturn. Past performance, internal resources, environmental awareness, top management team heterogeneity and CEO turnover all influence a particular strategy choice. Once strategies are implemented, the results of strategic reorientations are sensitive to different environmental situations, and strategic responses and their timing positively influence firm performance (Lant, et al., 1992; Mizik & Jacobson, 2003).

This is an exploratory study utilizing a content analysis process that does not allow providing a full list of the hypothesis at this stage, since formulating hypothesis needs to be preceded by the identification of strategy types. Unlike traditional quantitative hypothesis-testing, both the derivation and revision of the hypothesis occurs during the process of this study.

Early detection and timely recognition of industry cycle turning points is important, as it allows businesses to adjust their strategies and investors to reallocate assets among alternative investments to optimize their return. In this study, it is suggested that the industry cycle be utilized to more precisely determine the timing of strategy choices. This study will help to uncover the best-timed strategy choice so that casual dining firms have a better chance to maximize the returns on their investments.

Data Collection and Firm Selection

In this study, there are three types of time series data used to conduct the analyses: 1) restaurant industry output data to develop the industry cycles, 2) textual data from trade journals and business periodicals to identify the categories of strategic choices and to examine the emphasis on each strategic choice available to the casual dining industry and individual firms in response to industry cycles, and 3) financial data to examine the moderating effects of industry cycles on the relationship between an individual firm's strategy choice and its performance. The numeric data (1) for the industry cycle is quarterly data from 1992 to 2010. During the period of 1996-2010, a large amount of textual data (2) related to casual dining restaurant firms and their financial data are collected from accessible sources such as business periodicals, industry news, and trade magazines. The different time periods are used because of data availability from sources.

The source of industry cycles is the Industry TrendMapper of the National Restaurant Association (1). Research that uses documentary sources to track the strategic choices of firms relies on trade journals or the business periodicals (2). In this study, texts associated with most casual dining chains are collected from two key sources—restaurant industry news publications and general business periodicals. Specifically, sources for the textual analysis are Nation's

Restaurant News (publication and online¹⁰), Restaurant Hospitality, Restaurant Business (publication and online), and The Wall Street Journal. Nation's Restaurant News (NRN), Restaurant Hospitality, and Restaurant Business are US trade publications that cover the restaurant industry news, trends, marketing, events, and operations. They produce weekly magazine print version and online news, and are longstanding published sources that provide a large amount of information about restaurant firms on a regular basis. The Wall Street Journal is one of the most well-known business periodicals and generally caters to industry and government audiences.

Initially all textual data is used to identify and categorize strategy choices that are made by players in the casual dining industry. Then the texts are divided by quarter and by firm so that we can map individual firm's strategic choices quarter to quarter. For example, texts collected for 15 years related to Darden Restaurant Company are divided into 60 sets of texts (4 quarters times 15 years). The groups of texts are then utilized to identify an individual firm's emphasis on key strategic choices quarter to quarter and to correlate these strategy choices with the firm's financial performance. The original textual data for the casual dining industry is not limited to texts related to the ten major firms that have been selected for the firm level analysis. The original textual data is used to identify strategy choices and is related to most casual dining firms that were found in the sources of texts.

Firms used for the firm level analysis in the current study are selected based on both Standard Industrial Classification (SIC) codes and the domain where firms operate. Business domain constitutes the boundaries in which firms compete. Major criteria to define a domain of a firm include geographic market areas, segments defined by competitive methods made up of the mix of product and service attributes, primary competition, target markets, suppliers, and substitutes (Olsen, et al., 1998, 2007). The selected firms were used for the analysis at the firm level. All selected firms were publicly traded companies due to data availability. Their primary business must be in the casual dining industry and sales are mainly driven by domestic demand. Relatively pure players in the casual theme restaurant industry are Applebee's International Inc, Brinker International Inc, Cheesecake Factory Inc, Darden Restaurant, O'Charley's Inc., OSI Restaurant Partners, P.F. Chang's China Bistro, Rare Hospitality International Inc (acquired by

¹⁰ NRN online news was launched in 1996.

Darden Restaurant in December 2007), Ruby Tuesday, and Texas Roadhouse. The sample used for strategy-performance analysis includes some casual dining service firms that were privatized, bankrupt, merged, or acquired if they were publicly traded in the past. OSI Restaurant Partners is a currently privately held firm. Applebee's International Inc. was merged with IHOP with a new name, DineEquity in November 2007. Rare Hospitality International Inc. was acquired by Darden Restaurants in December 2007. These firms were all included in the analysis for the period for which the firms were publicly traded.

Operationalizing the Constructs and Dimensions

Environment Construct: Identification of the Restaurant Industry Cycle

Using the classical definition of the general economic cycle by Burns and Mitchell (1946), the industry cycle for the task environment construct is formulated based on fluctuations in the aggregate activity of a strategic group, the restaurant industry. Specifically, the industry cycle is developed by using the total output of all restaurant firms in US, which presents the total demand for the industry. Formulating the restaurant industry cycles results from decomposing¹¹ the total output data series into six phases of the industry business life cycle: peak (the top of the business cycle), trough (the bottom of the business cycle), downturn (falling from a peak), upturn (rising from a trough), recession (a decline for more than two consecutive quarters), and expansion (an upturn for more than two consecutive quarters). Identification of industry cycles involves the analysis of industry time series data. The analysis is conducted in two steps: 1) isolating cyclical components in the industry data series and 2) determining the turning points of the cycles.

The time series typically has four underlying components: the trend, seasonal, irregular, and cyclical components. To identify industry cycles, the cyclical component in the industry data series should be isolated from the other components. A trend component represents long term changes in time series data. A seasonal component presents periodic fluctuations due to timing of holidays, corporate policies, temperature, and certain dates. An irregular component is an

¹¹ Decomposing a time series means separating it into its constituent components, which are usually a trend component (the long-run behavior of the series), cyclical component (the medium-run behavior), and seasonal component (the short-run behavior) components.

element of error. A cyclical component relates to fluctuations without a fixed period. Removing the trend, seasonal and irregular components underlying a time series produces growth cycles. Specifically, X-12-ARIMA is used for the seasonal adjustment. This is produced and maintained by the Census Bureau, and is used for all official seasonal adjustments at the U. S. Census Bureau. More importantly, a long-term trend component also needs to be eliminated with the use of the Hodrick-Prescott (HP) filter. HP filter is the most common method used to extract the trend from a time series (Hodrick & Prescott, 1997). In this filtering process, the basic idea is to break down the economic series of interest into the sum of a slowly evolving secular trend and a transitory deviation from it:

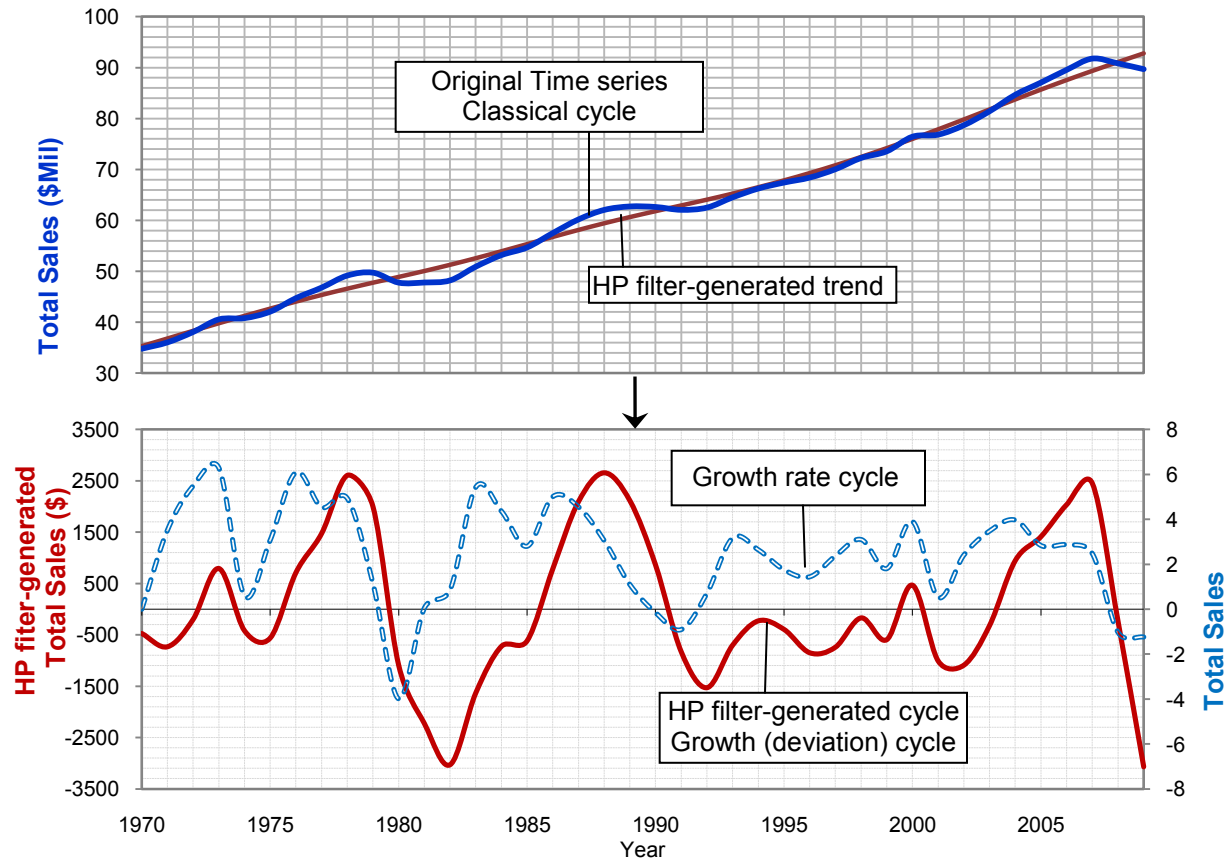
$$\begin{array}{rcl} x_t & = & \tau_t + \zeta_t \\ \text{Observed Series} & = & \text{Permanent Trend} + \text{Cycle} \end{array}$$

The HP filter extracts the trend, τ_t , by solving the following standard penalty program:

$$\min_{\{\tau_t\}} \underbrace{\sum_{t=1}^T (x_t - \tau_t)^2}_{\text{Goodness of Fit}} + \lambda \underbrace{\sum_{t=2}^{T-1} [(\tau_{t+1} - \tau_t) - (\tau_t - \tau_{t-1})]^2}_{\text{Penalty for Roughness}}$$

where the smoothing parameter λ controls the smoothness of the adjusted trend series, $\hat{\tau}$; as $\lambda \rightarrow 0$, the trend approximates the actual series, x_t , while as $\lambda \rightarrow \infty$ the trend becomes linear. Figure 8 presents how the cycle looks like after the use of a detrending method, the HP filter. Then, the next step for the identification of industry cycles is to determine turning points in a growth cycle.

Figure 8: HP Filter Generated Cycle



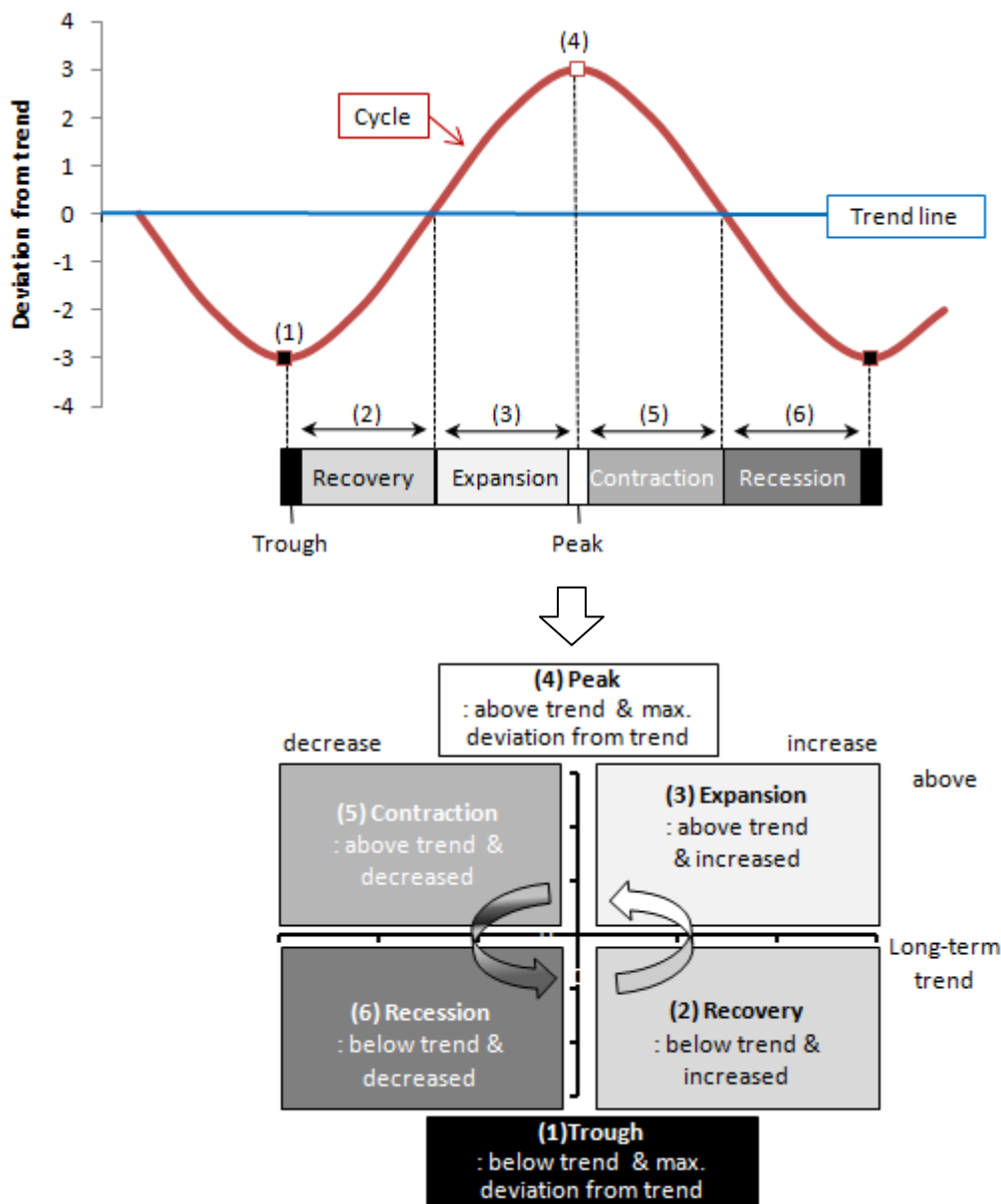
Environment Construct :Determination of Turning Points

A cycle consists of several phases as presented in Figure 9. This sequence of changes is recurrent but not periodic, and the duration of industry cycles vary. The phase of the cycle can be divided by two factors: increase/decrease and above/below trend. The trend means the long-term growth/decline of the industry and it is the horizontal axis in Figure 9. The phase of the cycle includes the followings:

- 1) A trough is the bottom of the industry cycle.
- 2) A recovery is also known as an upturn. It is when industry demand starts to rise from a trough while the demand for the industry is still below trend.
- 3) An expansion is an upturn that generally lasts at least two consecutive quarters. The growing demand may allow firms to expand their businesses. In this period, the industry demand is growing above trend.
- 4) A peak is the top of the industry cycle.

- 5) A contraction is when industry demand starts to fall from a peak. It is also called a downturn. The demand for the industry is still above trend but decreasing. This reflects business activity slowing and less money being spent.
- 6) A recession is when the industry environment is below trend and decreasing. This decline usually persists for more than two consecutive quarters. This reflects a severe condition that may cause business failure due to little money spent.

Figure 9: Six Phases of the Industry Cycle



To identify phases of the cycle, turning points of the cycle must be determined. This study employs the broadly accepted and classical techniques of business cycle analysis developed by Burns and Mitchell (1946). To date the industry cycle requires two steps. First, cyclical peaks and troughs should be determined for individual series in order to discover turning points, by using a computer algorithm that was developed by Bry and Boschen (1971) and used for examining turning points of economic cycles. Second, common turning points need to be determined by comparing these series-specific turning points. If the cyclical movements related to these common turning points are sufficiently constant, then an aggregate business cycle is identified. Also its peaks and troughs are dated. In this study, this procedure to determine major peaks and troughs of the industry cycle is conducted based on the following four rules for the HP filter generated cycles (Figure 9):

- Peaks should follow troughs and vice versa (to eliminate situations where a peak might be followed shortly by another peak);
- Industry cycle phase (upturn or downturn) shall last at least three quarters (to eliminate minor fluctuations);
- A turning point is the most extreme quarterly value between two phases—except at the beginning and end of the series; and
- Of two or more contiguous peaks, the highest one (and if they have the same or very similar value, the latest) survives; and the analogous rule holds for troughs to eliminate multiple points.

Strategy Choice Construct: Types of Strategy Choices

A set of types of strategy choices is developed and grows naturally from the data analysis rather than standing to the side as an a priori statement. Once the content analysis identifies the strategy choices from textual data, it is necessary to cluster them so that they can be coded in a way that allows identifying general types of strategic choices. The classification is structured based on the results of the text analysis and compared to strategy typology or strategy choice categories in previous research.

As reviewed in the previous chapter, over the years researchers have categorized similarities of strategies. Further, several typologies of corporate and business-level strategies have been advanced. In most studies, the types of strategies were conceptually described or empirically tested through surveys with a binary approach on choices of present or absent. In the existing literature, three main approaches for strategic typologies are reviewed – Business Scope (i.e. growth, retrenchment, stability), distinctive competences (i.e. cost leadership, market/product/service differentiation, focus), and strategic posture (i.e. Defender, Prospector, Analyzer, Reactor, etc.). Key typology studies are summarized in Chapter Two.

Olsen, Zhao, Cho, and Tse (1996) identified the competitive methods (or strategy choices) employed by the industry's leading multinational hotel and restaurant firms through content analysis during the period of 1985-1994. They claimed that firms are forced to create new competitive methods in response to environmental pressures and that those who lead in the creation of the new competitive methods are likely to achieve higher productivity. For example, Olsen and Zhao (2002) considered technological development as a competitive method in the restaurant industry. Technological innovation has been touted as a way to reduce costs (e.g., administrative, inventory, work redesign) and improve customer service (e.g., reduce response time and error rates, provide customized services using customer databases). A relatively new phenomenon in a firm's activities is increasing investments in conservation/ecology programs and social responsibility. This investment is neither exactly related to cost leadership nor to differentiation strategy. It implies that the dynamic change in the environment creates new opportunities and threats that force firms to make a new strategy choice that cannot be categorized by the traditional classification of strategy choices.

Before conducting a content analysis, it was expected that choices available to casual dining firms would be comparable with competitive methods identified in studies by Olsen et al. (1996) and Olsen and Zhao (2002), similar not identical. Specific strategy choices should be different because of the differences in time frames and industry sector. The findings of the content analysis may be matched with the generic strategy typology that previous researchers have suggested. However, the study is not limited to pre-determined strategic types or strategic variables prior to conducting the content analysis. A software program that does not require pre-selected categories is utilized in this study.

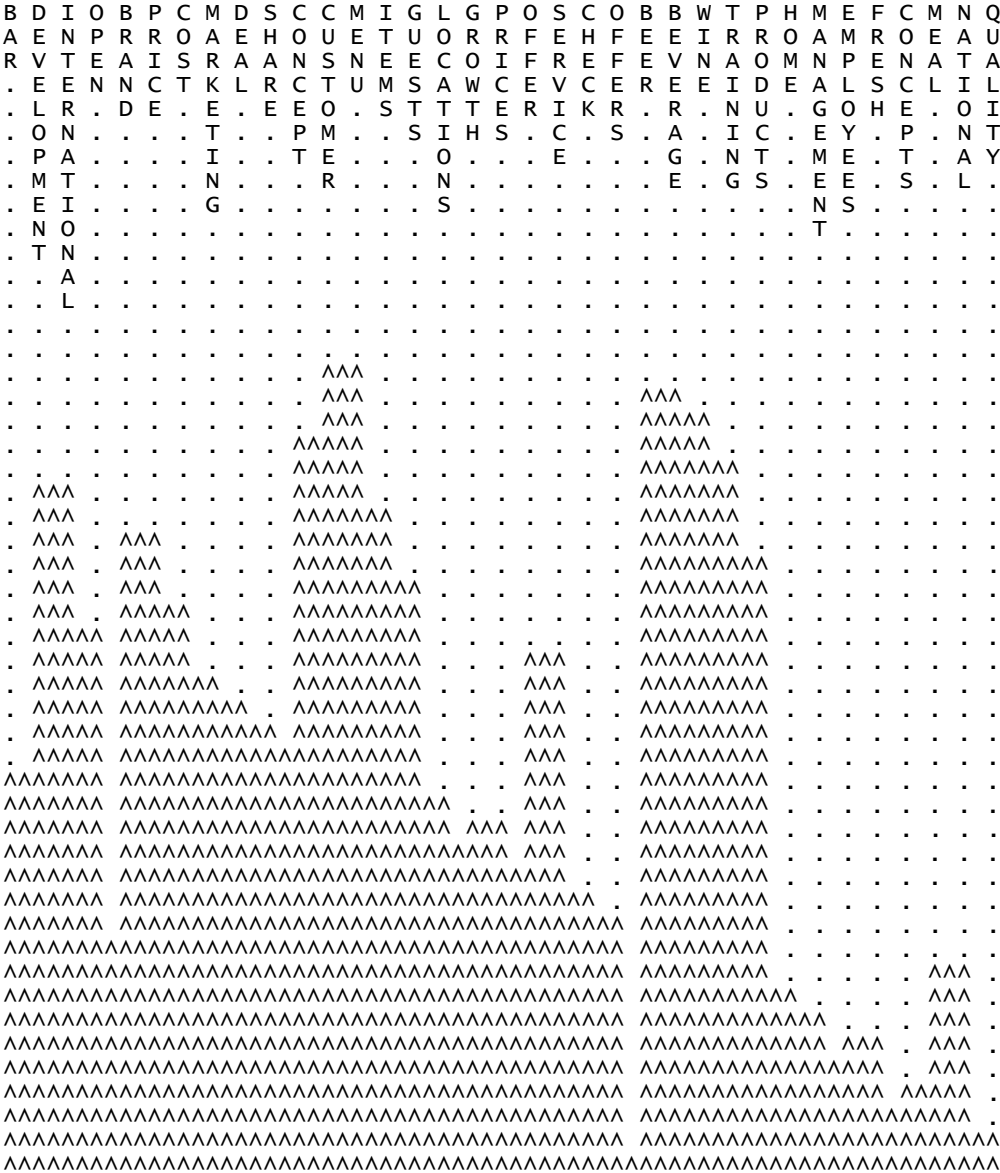
This study utilizes the computer based content analysis software, CATPAC. CATPAC is a part of the GALILEO suite of software that analyzes and displays various types of networks. This uses a neural network approach where it identifies the most frequent words and determines patterns of connection based on co-occurrence. CATPAC does this by assigning a neuron to each major word in the text. It then runs a scanning window through the text. The neuron representing a word becomes active as long as the word appears in the window. The window has n words at once and moves through the text. For example, if the window size is 7 and the slide size (i.e. the number of words the window skip before reading the next words) is 1, CATPAC read words 1 through 7, then words 2 through 8, and so on. Whenever a word is in the window, the neuron representing this word becomes active. Connections among active neurons are strengthened as active neurons behave similarly (i.e. the increase in the frequency of co-occurrence of active neurons), so words that are close to each other in the text tend to become associated in CATPAC's memory (Woelfel, 1998). This co-occurrence procedure using a scanning window produces several outputs (e.g. frequency tables, dendrograms for word frequency analysis and cluster analysis).

CATPAC has been used by many researchers since it offers several advantages over both traditional methods and other softwares. First, it has the capacity to handle large amounts of text. Another useful feature of this program is that it allows categories to emerge from data. Namely, this program uses large bodies of text to form meaningful conceptual groupings, not pre-determined categories. The computer based content analysis tool also achieves higher reliability, lower cost, and greater speed (Duriau, Reger, & Pfarrer, 2007) than traditional methods . However, CATPAC requires users to manually exclude stopwords (e.g. the, and, on, to, it) and adopt lemmatization to combine words with the same stem (e.g., see, sees, saw, seen, seeing). Another limitation is that the program does not use a concept dictionary; each synonym is treated as a different concept. These limitations demand that the user uses proper judgment and caution in setting the parameters and in interpreting the outputs (Krippendorff & Bock, 2008).

Figure 10 is an example of outputs (i.e. dendrogram and frequency table) that CATPAC generates. The sample texts (391 articles) related to casual dining restaurant firms were collected from three restaurant news publications and their websites during the period of 2008 November to 2010 October. A dendrogram is a graphical representation of the resultant clusters within the

texts. In this example, the dendrogram shows two large clusters, two medium clusters, and small clusters of key activities or management mentioned in the analyzed texts. The first cluster includes the following words: concept, customer, guests, menu, and items. The second cluster contains seven words. The most tightly connected words in the cluster are beer, beverage, wine, training, and product. The third cluster, which seems to represent international expansion, has three words: international, development, and open. The fourth cluster includes brand, price, cost, and marketing. The dendrogram can be used to identify the types of strategic choices in this study, while enabling comparison with the typology suggested by previous studies. Another output that is used in this study is a word frequency table to examine individual firm's emphasis on each strategic choice for a given period.

Figure 10: CATPAC Content Analysis Program Analysis of Casual Dining Firms Activities and Management (2008 November -2010 November)



Window size 7, Slide size 1

Frequency List

WORD	FREQ		CASE	
	FREQ	PCNT	FREQ	PCNT
CUSTOMER	344	9.3	1384	37.5
COST	279	7.5	1281	34.7
MENU	235	6.4	975	26.4
HEALTH	187	5.1	746	20.2
GROWTH	173	4.7	828	22.4
DEAL	167	4.5	774	21.0
HOME	158	4.3	753	20.4
PRODUCTS	135	3.7	728	19.7
ITEMS	126	3.4	729	19.7
ADVERTISING	122	3.3	512	13.9
JOB	117	3.2	454	12.3
LOCATIONS	104	2.8	508	13.8
MANAGEMENT	104	2.8	571	15.5
SERVICE	102	2.8	528	14.3
KOREAN	94	2.5	190	5.1
OPEN	93	2.5	493	13.4
RISK	78	2.1	430	11.6
CLOSE	77	2.1	434	11.8
FAT	75	2.0	168	4.6
CHINA	67	1.8	369	10.0
MARKETING	66	1.8	408	11.1
FREE	65	1.8	386	10.5
TECHNOLOGY	64	1.7	301	8.2
CUTTING	61	1.6	387	10.5
PRICED	60	1.6	353	9.6
PLACE	58	1.6	327	8.9
VIDEO	58	1.6	207	5.6
ASIAN	57	1.5	192	5.2
LOCAL	55	1.5	297	8.0
COFFEE	54	1.5	232	6.3
DISCOUNTS	54	1.5	306	8.3
MEDIA	53	1.4	232	6.3
MATERIALS	52	1.4	237	6.4
PRIVATE	52	1.4	263	7.1
RISING	52	1.4	316	8.6

Strategy Construct: Mapping Strategy Choices

Once the categories of strategy choices are developed from the textual data, textual data then need to be grouped by quarter and by firm. The frequencies of occurrence of strategy choice variables are counted and used to find the industry or firm's use of each strategy choice. In this process, it is assumed that the high frequency of occurrence of a strategy choice variable represents an emphasis on the strategy choice. The results of the frequencies are used to prepare a pictorial representation of strategy choices on a timeline by using bar charts or the table mapping suggested by Langley, Kakabadse, and Swailes (2007).

Presentations of the frequency counts can be made at the industry level and firm level. Bar charts are often used to illustrate the trends of various strategy choices over time by using the frequency of the corresponding category. The main reason for mapping strategy choices in

this study is to see the change in emphasis on a strategy choice over the industry cycle. Bar charts allow us to compare strategy choices with the industry cycle so we can discover their relative changes.

For the firm level analysis, a number of content analyses should be conducted for each firm by quarter. For example, texts concerning Darden Restaurants for the first quarter of 2001 and the second quarter of 2001 are separately content analyzed in order to identify the periods of the key strategy choices and their importance (frequency count of occurrence) of strategy choices.

Table 5: Example of Summary of Mergers and Acquisition Strategies by Darden Restaurants

	2000Q1	2000Q2	2000Q3	2001Q4	2001Q1	2001Q2	2001Q3	2001Q4	2002Q1	2002Q2	2002Q3	2002Q4
DRI			15*								12*	
EAT												
:												

	2003Q1	2003Q2	2003Q3	2003Q4	2004Q1	2004Q2	2004Q3	2004Q4	2005Q1	2005Q2	2005Q3	----
DRI							30*	45*	16*			
EAT			7*	5*								
:												

Note: Presentation format is modified from Langley’s longitudinal textual analysis (2007)

*The frequency of words is not from real output.

In addition to bar charts, a longitudinal mapping for an individual firm can be used to show the evolution of the firm’s strategies (Table 5). As shown in the example in Table 5, this study provides a chronological map and identification of comparative strategic choices for each strategic choice by firm during the period of 1996 to 2010. Therefore, if 10 categories of strategic choices are found, a number of content analyses are conducted and summarized into 10 maps showing each strategy’s evolution. Although the pictorial presentations allow us to examine the timing and temporal patterns of each strategy and the emphasis on the strategy choice made by each firm for a specific time frame, a drawback to this pictorial presentation is that a comparison with the industry cycle is not applicable.

Performance Construct

A typical classification of performance measure is financial and non-financial (Neely, 2008). Financial measures summarize the measurable consequences of actions that have been or will be taken by an organization in order to succeed or survive in the marketplace. The financial measures are typically sales growth, profit related (e.g. profit margin, operating net income), return on capital employed (ROE, ROA, EVA, ROI) and generation of cash flow (Aliouche & Schlenrich, 2005; Hudson, Smart, & Bourne, 2001; Neely, 2008). They indicate whether the organization's strategy and implementation are contributing to the bottom line (Kanji and Sa, 2002). Financial measures are more objective and tangible however their shortages and misuse have led to an increasing attention on non-financial indicators of intangible assets or intellectual capital and integrated financial and non-financial measures such as balanced scorecards (Dempsey, Gatti, Grinnell, & Cats-Baril, 1997; Gomes, Yasin, & Lisboa, 2004). To make up for the weak points in financial metrics, especially for the service industry, some companies use non-financial indicators such as on-time delivery, product and service quality, process measures, customer satisfaction, or customer service.

Although non-financial measures and integrated approaches have become prominent, the hospitality industry still place greater emphasis on financial performance to assess the success of a company. The commonly used measures include return on assets, return on equity, return on sales, sales growth, operational cash flow, and market share. Some researchers recommended cash measures, such as cash flow per unit, cash flow per seat, cash flow per share, or cash flow per invested capital, as the predictors or measures for financial and performance analysis (Chung, 2005; Olsen, et al., 2007).

It is generally agreed that good metrics must be reliable, feasible, understandable, relevant, and comparable, and value deliverable. The key challenges for non-financial performance measurement and balanced measures are, however, reliability and feasibility. For example, intangible performance such as the brand value depends on the customers' subjective appraisal of the brand. Because they are measured in many ways and have no common denominator, the application of non-financial measures would be useless to assess performance comparatively. Financial metrics dominate information set, and it is not only because of the practicability of other intangible measures but also because of the ultimate objective of a

company (Bititci, Turner, & Begemann, 2000). It is understood that non-financial performance must be well managed in the process of performance management, but it is true that every company exists in order to generate cash or profit that leads to the value added to it and that non-financial measures are more input or process measures that do influence financial results in the end. (Gupta & Zeithaml, 2006). Copeland et al. (1996) insist that return on invested capital (ROIC) rather than ROE or ROA is 'true operating performance'. They also suggested that free cash flow could serve as a major performance measure, which is true operating cash flow that could have been generated for shareholders if the firm had no debt.

It is true that different purposes require different measures and an integrated performance system might have alternative implications. However, it is believed that measuring more things does not get the management more or guaranteed quality and the ultimate purpose of a profit organization is to maximize the value to owners. In this context, for the corporate or upper management, operating cash flow is suggested as one of better performance metrics. It is agreed by senior managers that cash after all payments including operating expenses, management fees, and returns to investors are a true outcome performance, although managers are still dependent on profit and earning figures. Thus, in this study, operational cash flow per invested capital is a performance measure used in this study to determine the level of success of an investment in a strategy choice or two or more strategy choices under different industry conditions.

Linking Industry Cycles, Strategies, and Performance

According to research on the alignment between environmental events, strategy choice, and firm performance, a strategy choice that pursues alignment with changes in business environment generates the superior performance. Due to the complexity of environments and a firm's investment decisions, it is almost impossible to fully test the alignment of environments, strategies, and performance. Empirical research on environment-strategy-performance tends to employ a limited number of strategic variables for quantitative analysis. Limiting the number of strategic variables does not allow the richness of explanation of strategies and their outcomes. The textual content analysis used in this study leads to consideration of all externally reported strategy choices (Langley, et al., 2007) so that we can better capture complex business phenomena.

Examining the fit between strategy and its outcome gives rise to the possible existence of a time lag. Time is critical for better understanding the cause and effect relationship between a strategic choice investment and the realization of its desired outcome. A temporal interval and duration would be necessary for the cause to be affected (Kelly & McGrath, 1988). Specifically, the role of time in the causality relationship implies not only that it takes time until the effect starts to occur but also that it takes a finite amount of time for the strategic decision to produce the full effect (Blossfeld, Golsch, & Rohwer, 2007). While there is very little theoretical or empirical guidance on the temporal interval or duration of cause and effect relationships and, accordingly, little consistency across studies on the effects of strategy choices in any aspect of the selection of time intervals and duration, evaluating the lifespan of strategy is critical in order to estimate the outcomes of the investment. Some effects of strategy choices may take place in a time interval and remain effective for their lifespan. An investment made by a corporation usually generate its value almost immediately, rises monotonically at first, then declines, and finally disappears as competitors possess similar strategies by imitating the strategy (Olsen, et al., 2007). This is called the useful life span of a strategy choice. Being this case, the temporal pattern of the effect should be considered in this study, rather than the effect at a particular time point.

One way to detect the financial impact of a firm's decision over time is event study methodology. Event study is the standard procedure used for measuring the stock price reactions to unanticipated announcements of events such as mergers and acquisitions, earnings announcements, and changes in regulatory environment (Blossfeld & Rohwer, 2002). It involves estimating a normal market model for each firm and then calculating the size and direction of abnormal returns as stock prices move in response to the dissemination of the new information (Blossfeld, et al., 2007). Standardized abnormal returns (i.e., the difference between predicted returns and actual returns) are then cumulated over a number of days surrounding the event, known as the "event window", to arrive at a measure of the cumulative abnormal return for each firm. Mean cumulative abnormal returns are then calculated across the total number of firms experiencing the same type of event, standardized and then tested for significance to demonstrate that the event had a significant impact on firm value.

The framework provided by the event analysis helps us to determine the outcome of a strategy choice over the industry cycle. Researchers can outline a theory that gives explanations

for financial performance caused by an event (or by the adaptation of a strategy choice), identifies a set of firms that implemented the strategy choice, chooses an appropriate event window and its length, and examines the change in operational performance. However, quantitative calculations are not produced due to the complex nature of environment-strategy-performance and the potential errors of long-horizon tests. For example, the key underpinning assumptions of event study research are that the event is not anticipated and no confounding effects occur during the events. The cause and effect of strategic choices occurs over a long time horizon, so it is almost impossible to control for confounding events by isolating the strategy of interest from other firm events.

In an effort to detect the temporal linkage between strategy choice and its outcome, this study first seeks co-movements between strategy choice and firm performance at different times, using cross correlation functions. Cross correlation functions are often used for estimating the degree to which two series are correlated. It computes correlations between two variables (or series as statisticians refer to them) in which the values of one series are displaced by any specified number of time periods. This displacement can be both forwards or backwards and hence allows the study to obtain customized facts on co-movement with an assessment of whether one series (e.g. the frequency of occurrence of strategy choices) leads or lags another (firm's performance). As mentioned before, the lag effects of the variables should insure the robustness of the analysis and findings. While a simple correlation matrix might be prone to ignore the lead-lag relationship between variables, some researchers have used a new test for lead-lag relationships based on cross correlations (Brooks, Garrett, & Hinich, 1999).

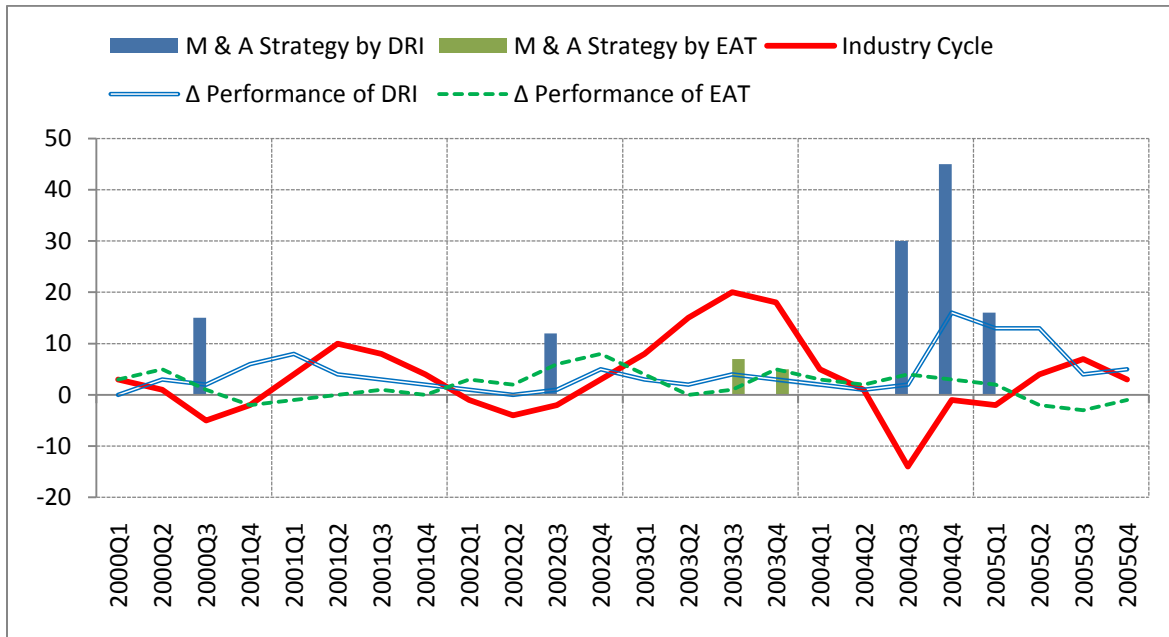
Once the time lag between strategy choice and performance is found, the time difference is considered for further analysis. If a firm's performance at time $t-1$ is highly related to a strategy choice at time t , then this study lags the strategy choice variable by a quarter. The lagged variables are used for scatterplots or other descriptive analysis of the relationships.

Industry cycle, strategy choice, and performance are plotted together to identify patterns in relation between three factors. In this case, the analysis would often demand subjective judgment to decide which pattern a particular strategy choice reflects at a given time and what interpretation of the pattern should be made. The analysis first involves combining three factors: 1) the industry cycles developed in this study, 2) the timing and frequency of strategy choices by

an individual firm, and 3) the firm's financial performance. Looking at graphs together that have contingent relationships with each other (i.e. industry cycles, strategies, and performance) helps a researcher to make sense of a situation and allows the researcher to make predictions and to draw conclusions. This method communicates great deal more information than a pure quantitative analysis of the relationships. The study uses various graphs to see the relationships: scatterplots, bar charts, line charts, or bubble charts.

Figure 11 is an example of a chart that shows the three constructs of interest: industry cycle (i.e. industry environment), strategy, and firm performance. Having the full picture of three constructs over time provides a better chance of capturing their interrelationships in the complex nature of business. The graphical presentation allows the identification and comparison of the timing of strategy choices, and gives an idea about how a particular strategy produces its effects. For example, Figure 13 shows that Darden Restaurants (DRI) tends to acquire new units or businesses during downturn stages of the industry cycle, possibly because of low costs of capital and high capacity for aggressive growth during the future recovery. The level of the firm's subsequent financial performance seems to be influenced by its actions during downturns. This being the case, we would conclude that a Mergers and Acquisitions strategy choice was effective during a downturn or recession, but it took at least one quarter to be effective and the effect lasted one to three quarters.

Figure 11: Example of Relationship between Industry Cycles, Strategies, and Performance



Note: DRI: Darden Restaurants; EAT: Brinker International

This type of graphs suggested above may not display clear relationships if phases of cycle are short. In that case, the study uses scatterplots by phase of the industry cycle. Specifically, we compare scatterplots (of the relationship between strategy choice and firm’s performance) between different phases (i.e. trough, recovery, expansion, peak, contraction, and recession) of the industry cycle. If the relationships are different for each phase of the industry cycle, we can conclude different effects of a strategy choice due to the cyclical change of the industry cycle.

The analysis of this study demands both a quantitative and qualitative approach in order to better capture the longitudinal relationships among the industry cycle, strategy types and firm performance. As implied in the example above, the third and fourth proposition in this study, which are related to the timing and patterns of strategy and performance over the industry cycle are investigated in this manner, rather than by a pure quantitative analysis using statistical methods.

Summary of Methodology

In an effort to provide a framework for understanding the associations among the industry cycle, strategy choice, and performance, the procedure of the analysis in this study include:

- (1) Developing the restaurant industry cycle,
- (2) Categorizing strategies at the industry level (or the casual dining industry),
- (3) Mapping the strategies of casual dining firms,
- (4) Investigating strategic responsiveness to the changes of the cycle stages, and
- (5) Examining relationship between the industry cycles, strategic investment, and firm performance.

In this study, there are three types of data used to conduct the analysis: 1) industry quarterly data to develop the industry cycles (Total output of the industry from TrendMapper of the National Restaurant Association), 2) textual data to categorize strategic investments of casual dining firms and to examine the evolution of strategies of individual firms in response of industry cycles (Firm Selection: SIC and Domain, Texts: restaurant industry news publications, general business periodicals, 10Q, and analyst's reports) 3) quarterly financial data to examine the moderating effects of industry cycles on the relationship between an individual firm's strategic investment and its performance during the period of 1996-2010.

Industry Cycle: Environment Construct (Proposition 1)

The industry cycle is formulated based on fluctuations in the aggregate activity of restaurant companies within the industry similar to the classical formulation of the general economic cycle by Burns and Mitchell (1946). This restaurant industry cycle includes six phases of the industry business life cycle: peak (the top of the business cycle), trough (the bottom of the business cycle), downturn (falling from a peak), upturn (rising from a trough), recession (a decline for more than two consecutive quarters), and expansion (an upturn for more than two consecutive quarters). Identification of industry cycles involves analysis of industry time series. The analysis is conducted in two steps: 1) isolating cyclical component in the industry data series from the trend, seasonal and irregular component (Makridakis, Wheelwright, & Hyndman, 1998)

and 2) determining the turning points of the cycles with a set of dating rules (Bry & Boschan, 1971). Additionally, seasonal and irregular components are filtered by using X-12-ARIMA (US Census) and the long-term trend component is removed with Hodrick-Prescott (HP) filtering method. .

Textual Content Analysis (Proposition 2)

To identify archetypes of strategy choices of the casual dining industry, textual content analysis is adopted. The content analysis leads to consideration of all externally reported strategy choices and the results of the content analysis are compared to strategy choices found in previous literature later. Computer based content analysis using CAPAC is utilized because of its reliability, speed, and cost. CAPAC uses a neural network approach, identifying the most frequently appearing words and determining patterns of connections based on co-occurrence in a scanning window. This analysis requires proper judgment and caution in setting parameters and interpreting output (Krippendorff & Bock, 2008).

Longitudinal Mapping Strategies (Proposition 3)

Once the types of strategy are identified using all textual data, the textual data is divided by quarter. The frequencies of occurrence of strategy choice variables are counted to examine the emphasis of the industry's strategy choice for a particular quarter. The results are used to prepare a pictorial representation of strategy choices over the industry cycle(Langley, et al., 2007). Pictorial presentation of strategies on time line is a way to examine the evolution of a firm's strategies and the linkage with the industry cycle.

Linking the Industry Cycle, Strategy Types, & Performance (Preposition 4)

Operating cash flow on invested capital is the measure of performance in this study. Cash flows are standardized to eliminate the variation of performance caused by invested capital growth. Examining the relationships between the industry cycle, strategy types, and performance in this study is an exploratory study, not empirical analysis. The study graphically represents numeric data that are acquired from the identification of the industry cycle, strategy types and their emphasis, and performance measure. It is believed that this is the best way to capture complex business phenomena.

While it is true that many strategic decisions may begin to impact organizations shortly after the decision is implemented, the full consequences of the decision are likely to take several

years to occur. A temporal interval and duration would be necessary for the cause to be affected (Kelly & McGrath, 1988). Specifically, the role of time in the causality relationship implies that it takes time for the effect to start to occur and that there is a finite amount of time for the strategic decision to produce the effect. Temporal consideration in studying decision making is crucial for the robustness of the causal relationship especially in strategy-performance relationships. As an initial step to assess the relationships, this study uses cross correlations that detect time delay between the implementation of a strategy choice and its outcome. Using the most relevant lagged strategy choice variables for the graphical representation helps us not to ignore the temporal interval of cause and effect relationships (Kelly & McGrath, 1988) and the useful life of strategy (Blossfeld et al., 2007; Olsen et al., 1998, 2007).

CHAPTER FOUR: ANALYSES AND FINDINGS

In this chapter, the procedures adopted in the development of the restaurant industry cycle and in the identification of strategy choices are described, followed by a presentation of the results of the first two research propositions mentioned in previous chapters. This chapter also presents an investigation of the relationship between the restaurant industry cycle, strategy choices, and firm performance pertaining to the third and fourth propositions. The analysis for Proposition One was carried out for the 1992Q1-2010Q4 time period and a shorter time period was used for propositions two, three, and four, due to financial and textual data availability for individual firms and the casual dining industry.

The following table presents data and its sources, unit of analysis, measures, and procedure used for each of the four propositions, and detailed information is provided in the following sections.

Table 6: Summary of Data, Variables, and Methods for Analyses

	Data/Sources	Unit of Analysis	Measures	Procedure
P1: Developing the restaurant industry cycle	<ul style="list-style-type: none"> Total output of the restaurant industry/NRA 	<ul style="list-style-type: none"> Restaurant industry level 	<ul style="list-style-type: none"> Deviations from long-term trend 	<ul style="list-style-type: none"> Seasonal adjustment using X-12 HP trend filtering
P2: Categorizing strategy choices	<ul style="list-style-type: none"> Texts related to strategy choices/NRN, RH, RB WSJ 	<ul style="list-style-type: none"> Casual dining industry level 	<ul style="list-style-type: none"> Keywords of strategy choice 	<ul style="list-style-type: none"> Content analysis using CATPAC
P3: Investigating strategic responsiveness to changes in the cycle phases	<ul style="list-style-type: none"> Total output of the restaurant industry/NRA Texts related to strategy choices by quarter, at the industry and firm level/NRN, RH, RB, WSJ Textual data for ten key casual dining firms 	<ul style="list-style-type: none"> Casual dining industry level Casual dining firm level 	<ul style="list-style-type: none"> Deviations from long-term trend Frequency of occurrence of keywords for each strategy choice at the industry level Frequency of occurrence of keywords for each strategy choice at the firm level Recoded industry cycle (for ANOVA) 	<ul style="list-style-type: none"> Longitudinal mapping strategy choices by firm over time Compare the frequency of keywords with the industry cycle on bar /line charts ANOVA
P4: Examining relationships between industry cycles, strategy choices and firm performance	<ul style="list-style-type: none"> Total output of the restaurant industry/NRA Texts and OCF/IC by firm by quarter /NRN, RH, RB, WSJ , SEC filings 	<ul style="list-style-type: none"> Casual dining firm level 	<ul style="list-style-type: none"> Deviations from long-term trend Frequency of occurrence of keywords for each strategy choice at the firm level Operational cash flow on invested capital 	<ul style="list-style-type: none"> Cross correlations Scatterplots by phases of the industry cycle Comparative analysis of scatterplots between the cycle phase groups

Note: NRA=Nation’s Restaurant News, RH=Restaurant Hospitality, RB=Restaurant Business, and WSJ= the Wall Street Journal

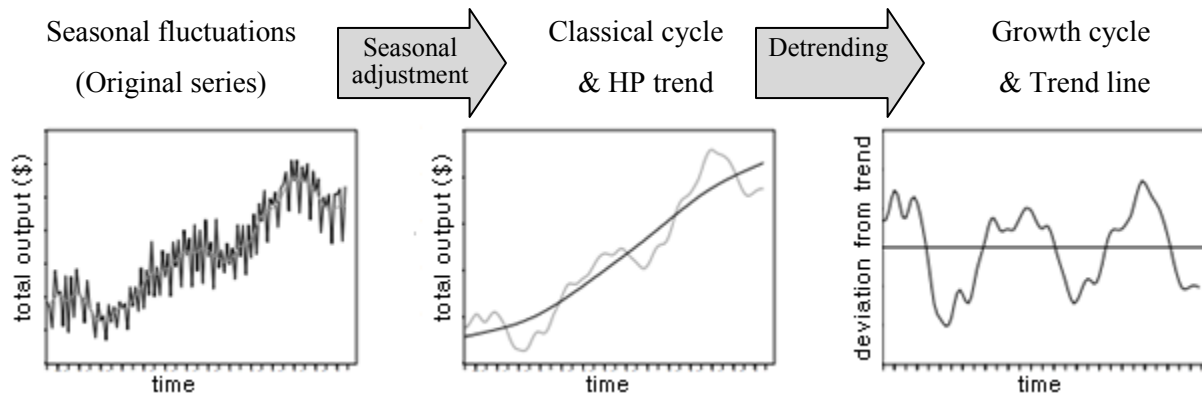
Proposition One: *The restaurant industry has unique cyclical characteristics (the timing, duration, and amplitude of its fluctuation)*

Developing the Restaurant Industry Cycle

The first part of this study is to discuss the restaurant industry cycle in order to identify its unique cyclical characteristics. The industry cycle can be discovered by investigating cyclical fluctuations in sales, price, capital investment, or capacity of an industry. In this study, the restaurant industry cycle was developed using a restaurant demand time series (i.e. the aggregate of sales in the restaurant industry) measured by total output of the industry. This study also used the growth cycle approach (the third chart of Figure 12) instead of the growth rate cycle (the percent change in the second chart of Figure 12) and classical cycle (the second chart of Figure 12) approach that were used for Choi's restaurant industry cycle in 1999. This is mainly because the growth cycle approach is a better way to discover the cyclical patterns by excluding a long-term trend. Developing the restaurant industry growth cycle (hereafter called the "restaurant industry cycle") comprises two major steps: 1) Eliminating long-term trend and seasonal fluctuation and 2) Identifying turning points. A time series is composed of three major components: long-term trend, seasonality, and cyclical irregular components. A trend component is responsible for slow growth or decline over a longer period of time, and a seasonal component occurs at regular seasonal intervals. Industry cycles are a medium term phenomenon distinct from both long-term trends of the industry and seasonal fluctuations (Tan & Mathews, 2010). Therefore, the long-term trend and seasonal components are irrelevant to the cyclical behavior of the industry environment, so the quarterly series of aggregated restaurant industry output was decomposed¹² into trend and seasonal components as shown in Figure 12. The third chart in Figure 12 is the chart used to present the restaurant industry in this study. The actual industry cycle developed in the current study is displayed in the second chart in Figure 14 and the cycle presents the deviations of the actual growth rate from the long-term growth rate.

¹² Decomposing a time series means separating it into its constituent components, which are usually a trend component (the long-run behavior of the series), cyclical component (the medium-run behavior), and seasonal component (the short-run behavior) components.

Figure 12: The Process of Decomposing Seasonal and Trend Components



A seasonal component was eliminated by using X-12-ARIMA, which the U.S. Census Bureau recommends and the original time series and seasonally-adjusted time series are presented in Figure 15. Next, the seasonally-adjusted series was transformed into natural logarithms and then the Hodrick-Prescott (HP) filtering method was utilized to exclude the long-term growth in the level of the seasonally-adjusted series (Figure 16). The first chart in Figure 16 displays a logged, seasonally-adjusted series of aggregated industry output and the second chart shows cyclical components after eliminating long-term growth trend components. In short, the industry cycle is based on tracking the cyclical development of the industry output over the medium-term. It is computed by taking the filtered deviations from seasonal fluctuations and the relevant long-term trend. The deviation from this trend is the cycle after filtering seasonality and long-term trend as shown in Figure 16. In the second chart in Figure 16, the horizontal axis (x-axis intercept) is the long-term trend line and y-axis is the cycle. This study uses the six phases of the industry cycle that was used in the business cycle clock created and developed by Statistics Netherlands. Expansions, peaks, and contractions are above the long-term trend line and recessions, troughs, and recoveries are below the long-term trend line as previously explained in Figure 9.

Figure 13: Seasonality Decomposition

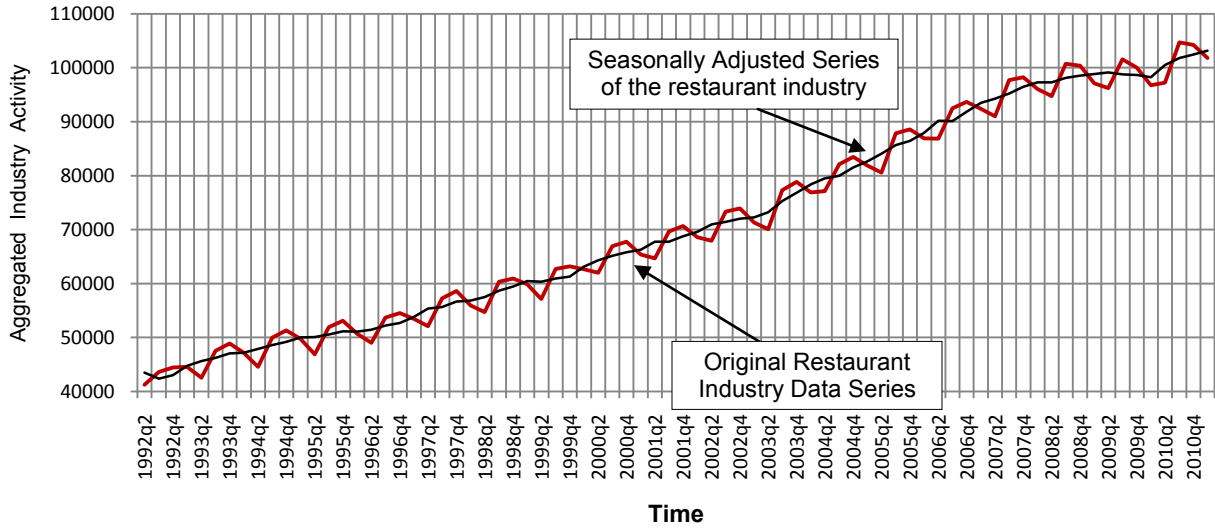
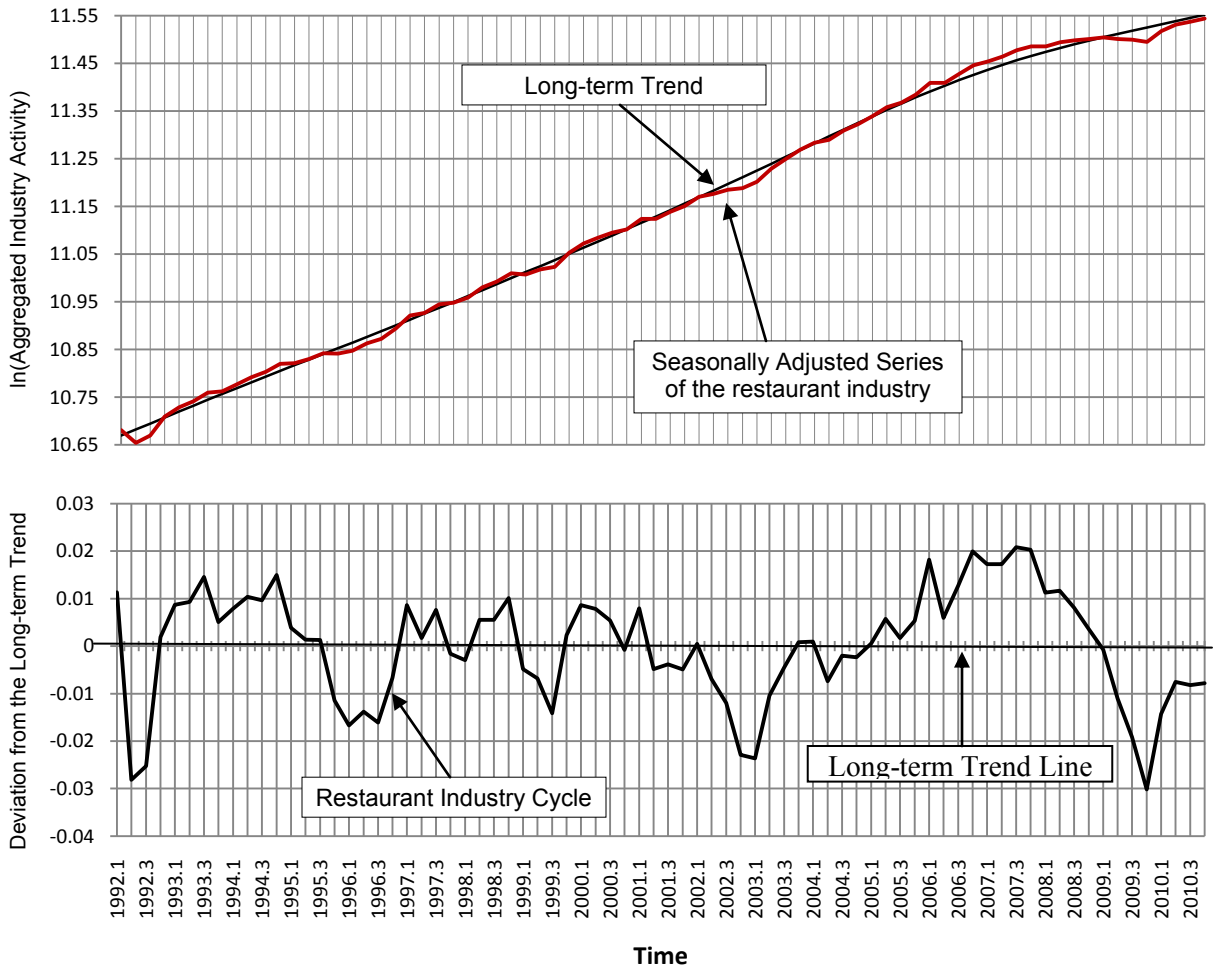


Figure 14: Long-term Trend Decomposition



Timing of Industry Cycle Phases

As defined in the classical work by Burns and Mitchell (1946), a cycle consists of trough followed by recovery, expansion, peak, contraction, and recessions which merge into the trough of the next cycle. There are two primary upturn phases. The early part of an upturn is termed recovery because the industry is recovering from the trough. An expansion generally follows the recovery and takes place above the long-run trend. After the industry cycle reaches its peak, a contraction begins. As the downturn continues below the long-term trend, the phase is termed a recession. Then, it bottoms out with the trough and transitions into the recovery of the next cycle.

In order to identify the phases of the industry cycle, the lower turning point (trough) and the higher turning point (peak) of a cycle must be determined. Rules used for determining the turning points in this study are as follows:

- Peaks should follow troughs and vice versa (to eliminate situations where a peak might be followed shortly by another peak);
- Industry cycle phase (upturn or downturn) shall last at least three quarters (to eliminate minor fluctuations);
- A turning point is the most extreme quarterly value between two phases—except at the beginning and end of the series; and
- Of two or more contiguous peaks, the highest one (and if they have the same or very similar value, the latest) survives; and the analogous rule holds for troughs to eliminate multiple points.

For a seventy-six quarter period (19 years from 1992Q1 to 2010Q4) investigation, the restaurant industry cycle displayed four large cycles and two to four small waves in each large cycle. Following the dating rules above, the industry cycle peaked in the fourth quarter of 1994, the fourth quarter of 1998, the first quarter of 2001, and the fourth quarter of 2007. The restaurant industry cycle trough was reached in the second quarter of 1992, the first quarter of 1996, and the third quarter of 1999, the first quarter of 2003, and the fourth quarter of 2009 (Figure 15). By using peaks, the first cycle occurred between 1992Q1 and 1996Q1, the second cycle between 1996Q1 and 1999Q3, the third cycle between 1999Q3 and 2003Q1, and the fourth cycle between 2003Q1 and 2009Q4. Dates of the industry cycle phase are presented in Table 7.

Figure 15: Duration of Cycle Phases

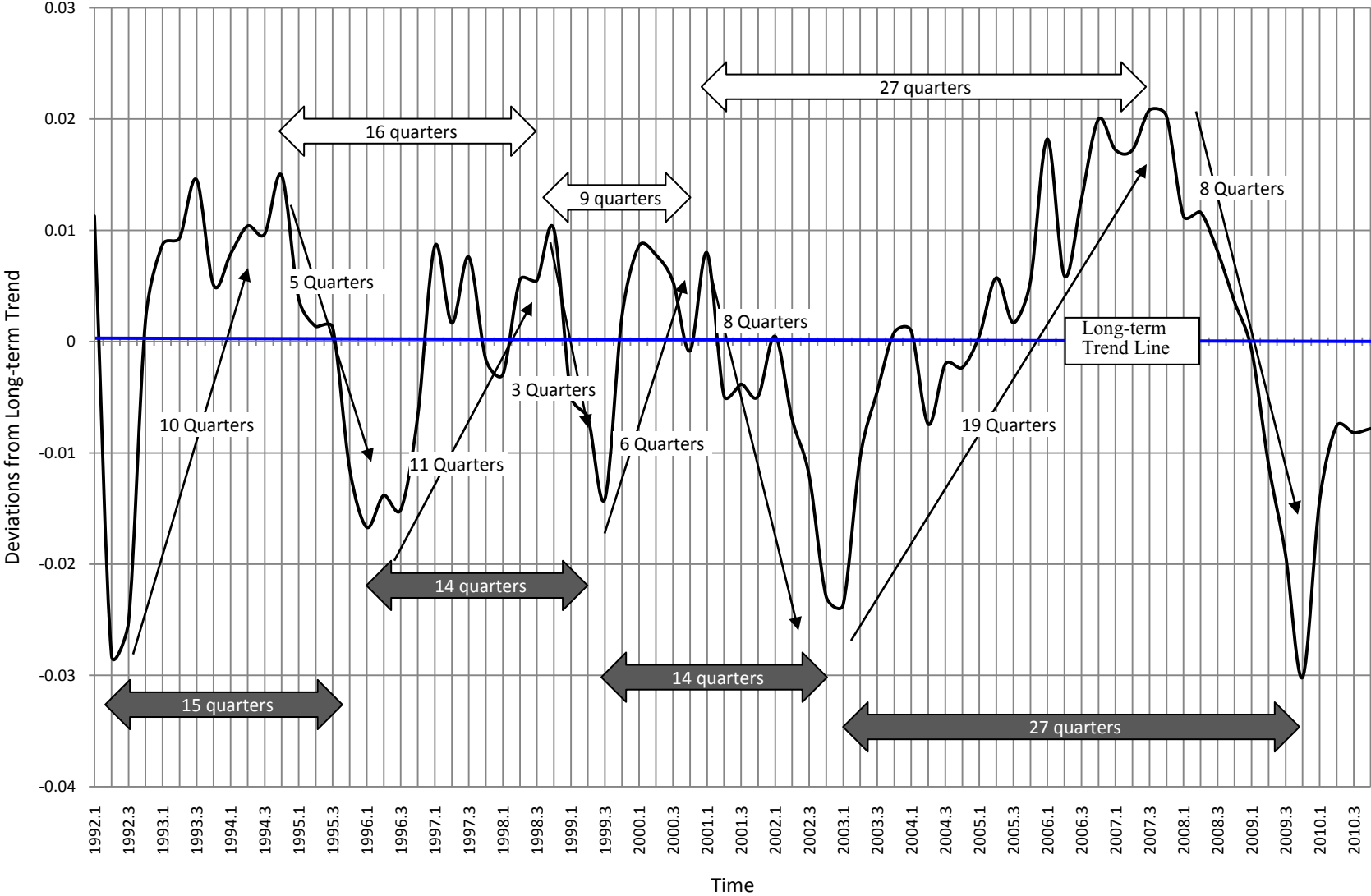


Table 7: Dates of Industry Cycle Phases (Year/Quarter)

Recovery	Expansion	Peak	Contraction	Recession	Trough
1992.3	1993.1	1994.4	1993.4	1995.4	1992.2
1992.4	1993.2	1998.4	1995.1	1996.1	1996.1
1996.2	1993.3	2001.1	1995.2	1998.1	1999.3
1996.3	1994.1	2007.4	1995.3	1999.2	2003.1
1996.4	1994.2		1997.2	1999.3	2009.4
1999.4	1994.3		1997.4	2001.3	
2002.1	1994.4		1999.1	2001.4	
2003.2	1997.1		2000.2	2002.2	
2003.3	1997.3		2000.3	2002.3	
2003.4	1998.2		2000.4	2002.4	
2004.1	1998.3		2001.2	2003.1	
2004.3	1998.4		2005.3	2004.2	
2004.4	2000.1		2006.2	2009.2	
2005.1	2001.1		2007.1	2009.3	
2010.1	2005.2		2008.1	2009.4	
2010.2	2005.4		2008.2		
2010.3	2006.1		2008.3		
2010.4	2006.3		2008.4		
	2006.4		2009.1		
	2007.2				
	2007.3				
	2007.4				

Note: Dates include small waves of four full cycles

Duration of Industry Cycle

A business or industry cycle is characterized by its average duration and amplitude. The average durations of restaurant industry cycles are 17.3 and 17.5 quarters calculated by peak to peak and by trough to trough, respectively (Table 8). The duration as well as the amplitude of cycles has lengthened over time. The durations of cycles before the third quarter of 2003 were relatively consistent (14-16 quarters), but a cycle rose to 27 quarters between 2003 Q3-2009Q4 as shown in Figure 15. Every cycle has two or more very similar extreme values of peaks in contrast to troughs. Following the rules to identify turning points, the latest value was used as a peak in this study. The cycles—except the largest cycle (i.e. the fourth cycle between 2007Q4 and 2009Q4)—sharply increased and then fluctuated above the long-term trend for four to seven quarters. In general, upturns of the restaurant industry cycle lasted longer than downturns. It took about 11.5 quarters (three years) to recover from the trough and to expand to the peak. The

average length/duration of industry cycle downturns from peaks to troughs is six quarters (1.5 years). Despite the longer duration of upturns in the first three cycles, the cycles do not appear to lean to the right because of another high point before reaching its peak. It was clear that the crest of the fourth cycle tended to lean to the right (i.e. right translation).

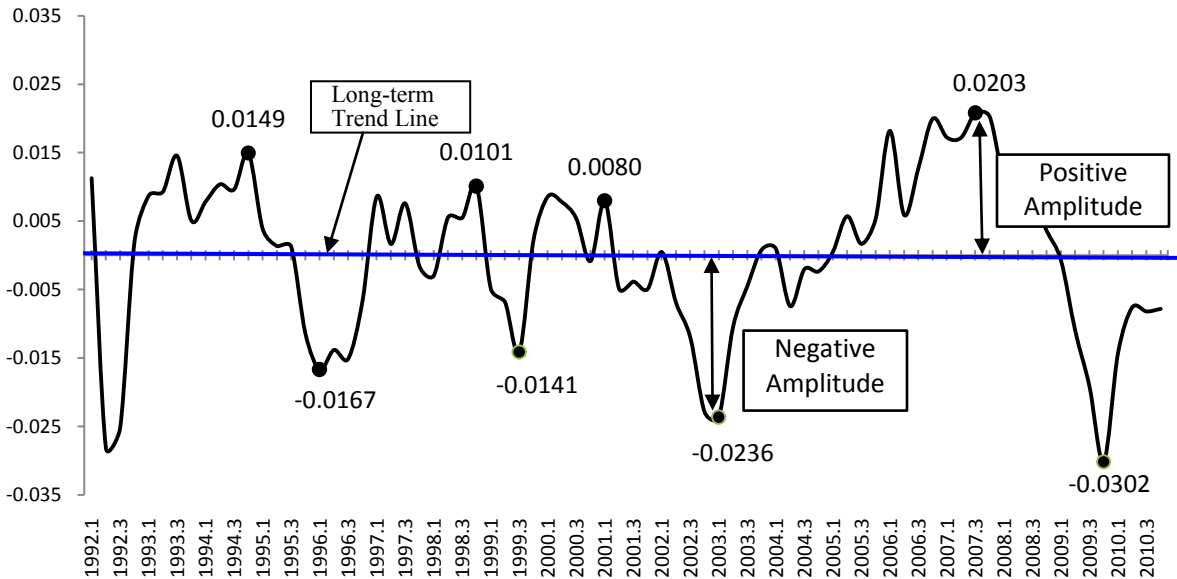
Table 8: Durations of Industry Cycle Phases

Restaurant Industry Cycle Quarters					
Peak	Trough	Peak to Peak	Trough to Trough	Upturn (T-P)	Downturn (P-T)
	1992.2				
1994.4	1996.1		15	10	5
1998.4	1999.3	16	14	11	3
2001.1	2003.1	9	14	6	8
2007.4	2009.4	27	27	19	8
Average Duration		17.3	17.5	11.5	6

Amplitude of Industry Cycle

The amplitude of a business or industry cycle is the size of the maximum deviation from trend. In other words, the amplitude is the largest number of the aggregated industry output lost during a trough period against its stable value (trend); similarly, it is the positive maximum variance from the stable value during a peak period. As indicated in Figure 16, the average amplitude of the restaurant industry cycle has increased since the first quarter of 2001. The negative maximum deviation from trend (negative amplitude) was one and a half times larger than the positive one in each cycle from trough to trough. This means a cycle is asymmetric around the zero line, the long-term trend.

Figure 16: Amplitude of Cycles



Proposition Two: *The casual dining industry has distinctive types of strategy choices*

Research on strategy or strategy choices often use strategic variables that are pre-selected and use the limited number of variables that present a strategy choice. However, this study uses an inductive approach through a content analysis (Fox, et al., 1997), as there is insufficient prior knowledge about strategy choices in the casual dining industry; strategic variables are directly derived from texts and are used to assign texts to meaningful categories that reflect types of strategy choices through a content analysis. The approach proceeded with data preparation, identification of key strategic variables, identification of content categories, and use of word frequency. Word frequency is primarily used for Proposition Three and Four.

Preparation of Textual Data

Textual data was collected from *Nation's Restaurant News*, *Restaurant Hospitality*, *Restaurant Business*, and the *Wall Street Journal*. Articles related to the following casual dining firms were initially collected by quarter during the period of 1996-2010: Applebee's, Benihana, Brinker International, California Pizza Kitchen, Cheesecake Factory, Cracker Barrel, Darden, DineEquity, Lone Star Steakhouse, O'Charley's, OSI Restaurant Partners, Outback Steakhouse,

P.F. Chang’s, Rare Hospitality, Red Robin, Ruby Tuesday, Texas Roadhouse, and T.G.I. Friday’s. The initial number of articles was 7,836. (126 duplicated articles were excluded.) Table 9 presents the specific number of articles collected by year and by quarter.

The following types of non-relevant articles were excluded: stock price information, rankings (e.g. Top 100 restaurants), sales/earnings announcements, executive change announcements, career information, conference information, restaurant stock index performances, IPO announcements, recipes, editorials, letters, and replies. Once irrelevant texts were excluded, the words of the articles were carefully reviewed before and during the content analysis process.

Table 9: Number of Articles by Quarter

	Q1	Q2	Q3	Q4	Total
1996	87	89	112	76	364
1997	91	73	67	91	322
1998	80	110	128	87	405
1999	87	133	135	88	443
2000	105	101	144	146	496
2001	93	161	167	148	569
2002	159	181	218	164	722
2003	185	224	135	56	600
2004	144	200	191	223	758
2005	169	152	161	141	623
2006	135	147	156	175	613
2007	141	163	144	139	587
2008	151	136	142	81	510
2009	75	106	77	101	359
2010	91	97	76	75	339
Total					7710

Identification of Key Words and Content Categories

In order to substantiate this proposition, computer-aided content analysis was used. Content analysis requires that the researcher obtain suitable material and reduce it to much fewer content categories (Fox, et al., 1997). This study utilizes the computer-based content analysis software, CATPAC to deal with a large number of textual files and to effectively reduce the texts to meaningful dimensions. CATPAC uses a neural network approach which identifies the most frequent words and determines patterns of connections based on co-occurrence. CATPAC does

this by assigning a neuron to each major word in the text. It then runs a scanning window through the text. The neuron representing a word becomes active as long as the word appears in the window. The window has n words at once and moves through the text. For example, if the window size is seven and the slide size (i.e. the number of words the window skip before reading the next words) is one, CATPAC reads words one through seven, then words two through eight, and so on. Whenever a word is in the window, the neuron representing this word becomes active. Connection among active neurons is strengthened as active neurons behave similarly (i.e. the increase in the frequency of co-occurrence of active neurons), so words that are close to each other in the text tend to become associated in CATPAC's memory (Woelfel, 1998).

A category refers to a group of key words that have similar meanings or connotations (Weber, 1990). Therefore, finding appropriate key words relevant to strategy choices by casual dining firms is critical in content analysis. Before and during the process of content analysis, some words in texts were excluded and converted to another word to achieve meaningful results.

Many of the most frequent words are not content-bearing or words at all. Such words include determiners, prepositions, etc. Another set of words that are excluded are words with multiple meanings (site, supply), and common words in various situations (e.g. sales, earnings, value). Hyphens between words were replaced with a space (e.g. environmentally-friendly → environmentally friendly) and company names were also excluded from the analysis (Refer to Appendix).

Many iterations were made in order to obtain the desired number of the most frequent strategy choice words and to find and change synonyms, multi-word concepts, tense, and plural-singular. It is necessary to change multi-word concepts into a one-word format (e. g. private equity → privateequity, Brinker international to Brinkerinternational). If they are not changed, they are mixed with the meanings of other words (e.g. brand equity, private equity, Brinker International, international expansion) and lead to meaningless results. This process was very carefully conducted to prevent researcher-induced bias in the content analysis. Many multi-word concepts often had a hyphen between words.

Once all of the steps above were completed, the content analysis was conducted using Ward's clustering method and the seven-word window size of CATPAC. The results are

presented in Table 11 and Figure 17. Table 11 displays variables identified and the frequency counts of the occurrences of these variables in the texts being processed. A dendrogram in Figure 19 displays how these words are closely linked together. The content analysis revealed 61 unique words that account for 6% of 101,636 total words. The analysis resulted in the following thirteen categories of strategy choices made by casual theme restaurant firms. In this study, we combined two categories—pricing tactics and promotion together, even though the CATPAC program did not group them. Pricing tactics and other marketing tools such as promotions or advertising are very closely related and combining them has almost become a norm in the industry.

- 1) Mergers and Acquisitions
- 2) Service Development
- 3) Pricing and Promotion
- 4) Eco-friendly and Energy Efficient Production,
- 5) Community Involvement
- 6) Leadership and Communication with Stakeholders
- 7) Location and Construction
- 8) Safety and Health
- 9) Technological Innovation
- 10) Human Resource Management
- 11) Product development – Brand, Concept, and Menu
- 12) Unit Expansion –New Openings
- 13) Balance between Cost and Quality

The results of content analysis revealed that the casual dining industry's strategy choices could not be fully described by the three generic types of competitive strategy (i.e. differentiation, cost leadership, and focus) suggested by Porter (1985), mainly because of characteristics of the restaurant business, the simplicity of his typology, and the lack of a clear-cut strategy choice. The findings are rather similar to the competitive methods in the multinational foodservice industry found by Olsen and Zhao (2001). Competitive methods mean a bundle of products and services that create the value of a firm; they similarly refer to strategy choice. Olsen and Zhao

(2001) claimed that in response to the opportunities and threats associated with the change in external environment, multinational foodservice firms made investments in strategic expansion into the international marketplace, technological development, internal competency development, effective communication to target markets, and competitive pricing strategies. Types of strategy choices suggested by Olsen, Zhao, Cho, and Tse (1996), as well as Zhao and He (2008) for the hotel industry are also similar to the findings in this study. Zhao and He (2008) identified competitive methods by 15 multinational hotel firms between 2000-2007: international expansion and market occupation, change of business structure, development of new product and services, marketing initiatives and campaigns, social awareness and environmental sensation, stakeholder relationship management, continuing information technology deployment, and quality consistency and improvement. Early work by Olsen, Zhao, Cho, and Tse (1996) on competitive methods for the hotel sector also share some types of the strategy choices identified in this study. The list of strategy choices in this study was compared to the competitive methods in two studies above in Table 10.

Table 10: Comparison of Strategy Dimensions

Current Study (2011) : Casual Theme Restaurant Sector	Olsen, Zhao, Cho, & Tse (1996) : Hotel Sector	Olsen & Zhao (2001) : Restaurant Sector	Zhao & He(2006) : Hotel Sector
Mergers and Acquisitions	-	-	<ul style="list-style-type: none"> • International expansion and market occupation* • Change of business structure
Service Development	<ul style="list-style-type: none"> • Niche marketing • Strategic alliance • Business services 	<ul style="list-style-type: none"> • Pricing strategies • Effective communication with the target market* • New product/services development* 	<ul style="list-style-type: none"> • Development of new product and services*
Pricing and Promotion	<ul style="list-style-type: none"> • Pricing tactics • Direct to consumer marketing • Frequent guest Program and advertising • Special services for frequent guests 	<ul style="list-style-type: none"> • Communication with the target market* 	<ul style="list-style-type: none"> • Marketing initiatives and campaigns
Eco-friendly and Energy Efficient Production	<ul style="list-style-type: none"> • Conservation/ecology programs 	<ul style="list-style-type: none"> • Internal competency development* • Effective communication with the target market* 	<ul style="list-style-type: none"> • Social awareness and environmental sensation*
Community Involvement	-	<ul style="list-style-type: none"> • Effective communication with the target market* 	<ul style="list-style-type: none"> • Social awareness and environmental sensation*
Leadership and Communication with Stakeholders	-	<ul style="list-style-type: none"> • Communication with the target market* 	<ul style="list-style-type: none"> • Stakeholder relationship management
Location and Construction	<ul style="list-style-type: none"> • Amenities 	<ul style="list-style-type: none"> • Communication with the target market* 	-
Safety and Health	-	<ul style="list-style-type: none"> • Communication with the target market* 	-
Technology Innovation	<ul style="list-style-type: none"> • Computer reservation systems • Database management • Technological innovation 	<ul style="list-style-type: none"> • Effective communication with the target market* • Investment in technological development 	<ul style="list-style-type: none"> • Continuing information technology deployment
Human Resource Management	<ul style="list-style-type: none"> • Employees as important assets 	<ul style="list-style-type: none"> • Internal competency development* 	<ul style="list-style-type: none"> • Quality consistency and improvement*
Product Development	<ul style="list-style-type: none"> • Branding 	<ul style="list-style-type: none"> • New product/services development* 	<ul style="list-style-type: none"> • Development of new product and services*
Unit Expansion	<ul style="list-style-type: none"> • International expansion • Franchising and the management fee 	<ul style="list-style-type: none"> • Strategic expansion into the global marketplace 	<ul style="list-style-type: none"> • International expansion and market occupation*
Balance between Cost and Quality	<ul style="list-style-type: none"> • Cost containment; • Service quality management 	<ul style="list-style-type: none"> • Internal competency development* 	<ul style="list-style-type: none"> • Quality consistency and improvement*

Note: * Strategy choice or competitive method is applied to multiple categories in this study.

Table 11: Results of Content Analysis: Frequency of Words

DESCENDING FREQUENCY LIST					ALPHABETICALLY SORTED LIST				
WORD	FREQ	PCNT	CASE FREQ	CASE PCNT	WORD	FREQ	PCNT	CASE FREQ	CASE PCNT
MENU	9526	9.3	35232	34.3	ACQUIRING	1564	1.5	8676	8.4
EMPLOYEE	7724	7.5	26707	26.0	ACQUISITION	1517	1.5	7779	7.6
COST	6376	6.2	28320	27.6	ADVERTISING	2236	2.2	10694	10.4
MARKETING	4817	4.7	23930	23.3	BRAND	4442	4.3	21791	21.2
BRAND	4442	4.3	21791	21.2	BRANDING	434	0.4	2335	2.3
TECHNOLOGY	3025	2.9	11699	11.4	BUILDING	1597	1.6	9464	9.2
PRODUCT	2580	2.5	13758	13.4	BUYOUT	592	0.6	2878	2.8
QUALITY	2547	2.5	13700	13.3	CAMPAIGN	1323	1.3	6814	6.6
FRANCHISEES	2529	2.5	11986	11.7	CATERING	685	0.7	2961	2.9
TRAINING	2521	2.5	11443	11.1	CHARITY	372	0.4	1841	1.8
OPENING	2427	2.4	13291	12.9	COMMUNICATION	900	0.9	5063	4.9
EXPANDING	2355	2.3	14048	13.7	COMMUNITY	1123	1.1	6410	6.2
EXPANSION	2333	2.3	12599	12.3	COMPUTER	781	0.8	4360	4.2
DIFFERENT	2327	2.3	13298	12.9	CONSTRUCTION	668	0.6	4011	3.9
ADVERTISING	2236	2.2	10694	10.4	CONTROL	1173	1.1	6924	6.7
LABOR	2113	2.1	11164	10.9	COST	6376	6.2	28320	27.6
PROMOTION	1997	1.9	9793	9.5	CULTURE	714	0.7	4150	4.0
DATA	1862	1.8	8520	8.3	DATA	1862	1.8	8520	8.3
HEALTH	1755	1.7	8589	8.4	DEALS	956	0.9	5027	4.9
BUILDING	1597	1.6	9464	9.2	DESIGN	1307	1.3	6671	6.5
ACQUIRING	1564	1.5	8676	8.4	DIFFERENT	2327	2.3	13298	12.9
ACQUISITION	1517	1.5	7779	7.6	DIFFERENTIATION	347	0.3	2233	2.2
SAFETY	1374	1.3	5412	5.3	DISCOUNTS	670	0.7	3590	3.5
LOCATION	1369	1.3	7864	7.7	DIVERSITY	819	0.8	3208	3.1
TAKEOUT	1331	1.3	5029	4.9	EFFICIENCY	592	0.6	3667	3.6
CAMPAIGN	1323	1.3	6814	6.6	EMPLOYEE	7724	7.5	26707	26.0
DESIGN	1307	1.3	6671	6.5	ENERGY	1134	1.1	5320	5.2
CONTROL	1173	1.1	6924	6.7	ENVIRONMENTAL	361	0.4	1694	1.6
ENERGY	1134	1.1	5320	5.2	EQUIPMENT	757	0.7	4114	4.0
COMMUNITY	1123	1.1	6410	6.2	EXPANDING	2355	2.3	14048	13.7
LEADERSHIP	1105	1.1	5409	5.3	EXPANSION	2333	2.3	12599	12.3
NUTRITION	986	1.0	4352	4.2	FRANCHISEES	2529	2.5	11986	11.7
INTERNET	970	0.9	4953	4.8	FRANCHISING	965	0.9	5226	5.1
HUMAN	968	0.9	5647	5.5	HEALTH	1755	1.7	8589	8.4
FRANCHISING	965	0.9	5226	5.1	HIRING	630	0.6	3628	3.5
DEALS	956	0.9	5027	4.9	HUMAN	968	0.9	5647	5.5
COMMUNICATION	900	0.9	5063	4.9	INTERNET	970	0.9	4953	4.8
MALLS	827	0.8	3612	3.5	LABOR	2113	2.1	11164	10.9
DIVERSITY	819	0.8	3208	3.1	LEADERSHIP	1105	1.1	5409	5.3
RISK	816	0.8	4518	4.4	LOCATION	1369	1.3	7864	7.7
PRICING	802	0.8	4516	4.4	MALLS	827	0.8	3612	3.5
SOFTWARE	787	0.8	3875	3.8	MARKETING	4817	4.7	23930	23.3
COMPUTER	781	0.8	4360	4.2	MENU	9526	9.3	35232	34.3
EQUIPMENT	757	0.7	4114	4.0	MERGER	572	0.6	3030	2.9
PURCHASING	749	0.7	4149	4.0	NUTRITION	986	1.0	4352	4.2
TURNOVER	739	0.7	3478	3.4	OPENING	2427	2.4	13291	12.9
CULTURE	714	0.7	4150	4.0	PARTNERSHIP	634	0.6	3905	3.8
CATERING	685	0.7	2961	2.9	PRICING	802	0.8	4516	4.4
DISCOUNTS	670	0.7	3590	3.5	PRIVATEEQUITY	632	0.6	3052	3.0
CONSTRUCTION	668	0.6	4011	3.9	PRODUCT	2580	2.5	13758	13.4
SUPPLIERS	650	0.6	3719	3.6	PROMOTION	1997	1.9	9793	9.5
PARTNERSHIP	634	0.6	3905	3.8	PURCHASING	749	0.7	4149	4.0
PRIVATEEQUITY	632	0.6	3052	3.0	QUALITY	2547	2.5	13700	13.3
HIRING	630	0.6	3628	3.5	RISK	816	0.8	4518	4.4
BUYOUT	592	0.6	2878	2.8	SAFETY	1374	1.3	5412	5.3
EFFICIENCY	592	0.6	3667	3.6	SOFTWARE	787	0.8	3875	3.8
MERGER	572	0.6	3030	2.9	SUPPLIERS	650	0.6	3719	3.6
BRANDING	434	0.4	2335	2.3	TAKEOUT	1331	1.3	5029	4.9
CHARITY	372	0.4	1841	1.8	TECHNOLOGY	3025	2.9	11699	11.4
ENVIRONMENTAL	361	0.4	1694	1.6	TRAINING	2521	2.5	11443	11.1
DIFFERENTIATION	347	0.3	2233	2.2	TURNOVER	739	0.7	3478	3.4

Content Categories of Strategy Choices

Based on the results of content analysis, the textual data was carefully reviewed again to ensure the co-occurrence of the keywords that were categorized together and understand their linkage in texts. The following are explanations about each strategy choice category and selected texts that present the category.

Mergers and Acquisition (M & A)

Mergers and Acquisitions are chosen by casual restaurant firms as strategy choices. The most popular words that reflect the strategy choices are: ACQUIRING, ACQUISITION, MERGER, BUYOUT, PRIVATEEQUITY, and DEALS. Overall restaurant merger and acquisition activity, especially those associated with private equity players, has grown, over the last decades.

The increased competition in the marketplace has prompted casual dining firms to go for Mergers and Acquisitions as an important strategy choice. The trends of Mergers and Acquisitions (M & A) in the industry have changed over the years. In the 1990s, M & A was generally used as an opportunity to increase a firm's market share of the industry by acquiring competitors. In merger and acquisition activity, firms tried to prove themselves in multiple concept markets and to become a leader by growing at a rapid rate.

Since 2005, casual dining firms were more often acquired by private equity firms rather than other hospitality firms. As business became more aggressive in this sector, strategic acquisition by other hospitality firms or non-financial buyers was chilled by the aggressive pricing of the transactions made by private equity firms or other financial participants. In 2005, restaurant merger and acquisition announcements dropped to 101 transactions, fifteen percent fewer than in 2004 but still significantly higher than those recorded in 2003. Hedge funds and private equity investors were present in 40 percent of the 101 restaurant-related merger and acquisition transactions in 2005, according to the Chapman group. That figure was up from 24 percent during the prior year. In 2007 and 2008, participation by financial buyers had grown even stronger. Examples of texts that demonstrate this category are:

- "... 60-plus percent of equity was utilized by strong operators seeking to grow their companies through merger or acquisition targets that had lost value in the face of stiff competition and declining stock prices. " (Dec. 8, 1997)
- "Benihana Inc., assisted by a new growth vehicle through its acquisition of the RA Sushi Bar and Restaurant chain, has divulged the company's biggest expansion plan in years as such Asian cuisine competitors as P.F. Chang's China Bistro and Big Bowl Asian Kitchen vie for market share." (June 2003)
- "Fueling restaurant companies' growth through strategic merger and acquisition has become tougher in recent years as private equity firms buy up more and more available brands, thus pricing acquisitive foodservice firms out of the market, according to operators and industry analysts." (Oct.13, 2006)

Service Development

The second category to group types of strategy choices is comprised of the key words: BRANDING, PARTNERSHIP, DIFFERENTIATION, CATERING, and TAKEOUT. It is named *Service Development* in this study. Casual dining restaurants seek for new markets that can enable firm's ability to grow at a constant pace in the saturated market conditions of the casual dining industry. Catering or private dining and takeout have become important markets that make firms sustainable. Partnerships were often structured for catering and takeout management. As shown in the dendrogram, this category has the weakest linkage among key words, out of all of the other strategy categories. The followings are examples of texts that indicate 'Service Development'.

- "Chili's, part of the Brinker fold in Dallas, lists a menu and a toll-free telephone number for catering, which is offered in California, Nevada, Arizona, Colorado, and New Mexico. On-site cooking, delivery, and setup are available with receptions, corporate luncheons, birthdays, office parties, company picnics, and social hours..... Outback, meanwhile, urges potential clients to make your next gathering a bloomin' event. The 640-unit, Tampa, FL-based chain has catering offices in Florida, Minnesota, and Pennsylvania and pledges to set up and cook an awesome spread wherever you choose. Moreover, Outback has taken catering

beyond its own restaurants: In August 2000 it acquired A La Carte Catering, and last January the new partners opened the A La Carte Event Pavilion in Tampa." (Feb, 15, 2002)

- “At the 87 branches of Ruth's Chris Steak House, private dining has become one of the fastest sectors of business growth, according to On the Border, a chain concept of Dallas-based Brinker, also has developed its catering business into a strong driver of incremental sales” (Feb. 28, 2005)

Pricing and Promotion

As previously mentioned, *Pricing Tactics and Promotion* were combined as one group of strategy choice in this study. It is a norm in the restaurant industry that pricing often leads to promotion and advertising. The use of pricing tactics in the casual dining industry are generally limited to promotional marketing strategy rather than any other purpose in the restaurant industry, so this study does not distinguish between them as distinct strategy choices.

The Pricing Tactic category is comprised of two words: PRICING and DISCOUNTS. The deep economic downturn has led customers to either cut back on dining-out or to buy down to the lower pricing offerings of casual dining restaurants. As the recession headed toward its depths in late 2008, restaurants moved to offer value-priced or lower-priced menu items to achieve sustainable sales.

- "All restaurants have been relying somewhat on value pricing offerings to bring in more traffic during the past few years. Even upscale chains like Ruth's Chris added lower pricing options to their menus. Ruth's Classics program, which offers meals at \$39.95 and \$49.95 price points, are now mainstays of the chain's menu. But discounts may not continue on all menu items." (Nov.22, 2010)
- “Red Lobster moved to offer lower pricing options by adding entrées in the \$13-\$17 range. “ (Dec. 20, 2010)

ADVERTISING, CAMPAIGN, and PROMOTION are grouped as a Promotion strategy choice. A variety of ways to promote sales used by casual dining firms include such things as couponing, buy-one-get-one-free offerings, and kid's meals. Although the tactical maneuvering

in the price- and promotion-driven wars seems to hurt the industry, firms keep relying on short-lived promotional offerings, such as giveaways, buy-one-get-one-free offers and kids-eat-free.

- “Red Robin is heavy on promotions -- the casual-dining chain doesn't advertise much -- and all are supported with innovative in-store material. A standout in 2000 was the "Carnival of Burgers" promotion. Ceiling danglers and table tents made the restaurants seem as festive as a carnival, but the real showstopper was the menu: A spinning wheel with pictures of the featured burgers gave diners a little fun as they chose their meals.” (Dec. 20, 1997)
- “During the past year Ruby Tuesday suffered from weakened sales that it attributed largely to two factors. One was an advertising plan that shifted the brand away from a long-practiced coupon promotion strategy. The other was a short-lived strategy in 2004 that made on-menu disclosures of nutrition data for all food items and reduced some key portion sizes” (Sept. 19 2005)
- “ Boston Market differentiated its kids-eat-free deal from the many other such offers by providing two free kids’ meals with the purchase of an adult entrée, which chief executive Lane Cardwell said allowed more people to be able to take advantage of the promotion. The offer, which opened up a kids-eat-free deal to single-parent families and families with more than two children, was available seven days a week.” (Dec. 22, 2009)

As technology's role in consumers' buying decisions grows, casual restaurant firms promote their products through more various channels using social networks and high-technology, rather than traditional methods of TV ads and local promotions. Firms have long tried to stimulate business on the local level with newspaper advertising and with mass mailings of coupons and other promotional offers, but the explosion in recent years of technology that recognizes a user's location and the increase in tech-users has led to new ways to drive business to individual stores

- “The modern version is more efficient than traditional local marketing—a major plus at a time when the weak economy has restaurants looking to shore up sales and cut cost at the same time. Many of the people who see advertising in a local newspaper or receive

promotion in the mail have no interest in the restaurant that's being promoted, so much of the cost of buying advertising space or printing and mailing materials is wasted. Reaching out to customers electronically avoids those costs.” (May 17, 2010)

- “The technology took a virtual map of Atlanta and drew perimeters around and other places of interest such as sporting or entertainment venues in the city. The technology used global-positioning-system, or GPS, data and proximity to cell towers to tell when a customer who had signed up for company communication moved close to one of the marked-off locations on the map. It then sent that customer a text message with either a discounts offer or advertising to entice the customer to stop in at the restaurant.” (Feb. 15, 2010)

Eco-friendly and Energy Efficient Production

EFFICIENCY, ENERGY, EQUIPMENT, and ENVIRONMENTAL are words that explain *Eco-friendly and Energy Efficient Production* strategy choice in this analysis. A growing number of restaurants had at least some emphasis on being ecologically friendly, as we see an evolution of interest and concern by consumers that all of their consumer choices, including restaurants, have some sort of social responsibility in regards to the environment. Casual dining firms used biodegradable bottles, containers, waiter aprons, cleaning supplies, reclaimed wood, organic produce, hormone-free beef, free-range chicken, and fair-trade teas. They also focused on reducing water use, constructing energy efficient buildings, using recycled materials in building, and reducing lighting costs. In green building, construction material is made from recycled content and is manufactured locally and the wood used in the restaurant comes from sustainably-managed forests.

The green movement seems to have been growing despite the recession. Some restaurant firms believe that building environmentally-friendly facilities have significantly greater initial costs but will save more throughout the lifetime of the restaurant.

- “In December opened its first restaurant targeted at demonstrating energy efficiency and environmental sustainable buildings.” (Feb. 27, 2006)
- “Snappy Salads by Brinker joins a growing group of restaurants that feature ecologically oriented buildings, menus and energy usage. The three-unit Urth Caffè group, based in Santa

Monica, Calif., uses solar energy. O'Naturals restaurants in Maine and Massachusetts were built with recycled materials. . . . In the decades ahead, we will see a very large growth industry in cost-justified, environmental friendly sources and products and energy. It's the beginning of a trend, not the beginning of a short-trend fad." (Feb. 27, 2006)

- “When we build our next round of restaurants, I’d like to look at LEED (Leadership in Energy and Environmental Design) certification, but I’m even more interested in looking at using geothermal heat and air-conditioning.” (Apr. 13, 2009)

Community Involvement

Two words, CHARITY and COMMUNITY, were grouped and named *Community Involvement*. There are other related words (e.g. donation and scholarships) which also appear frequently in the texts, although they are not included in the result. To strengthen each restaurant’s relationship with its local community and to show the public the alignment of its donation policy with commitment to employees, customers and their communities, casual dining firms have established donation protocols. Firms relied on *community involvement* mainly to promote their stores as a way of investigating the importance of localized marketing efforts and *community involvement* instead of focusing on mass-market advertising.

- "The monies we've raised for this initiative are in addition to our commitments to other programs. Our individual store and market focus is based on local charity, and we will not cut back on local giving." (Oct. 29, 2001)
- “Applebee’s raises \$166K for children's hospitals” (Nov. 21, 2005)
- “Fleming's gives \$10K to education charity at Chicago opening. Ruby Tuesday announced that it has begun donate a portion of sales from its gourmet cookies to area food banks. Morton's The Steakhouse, based here, recently partnered with the Make-A-Wish Foundation with the stated goal of raising at least \$125,000 to help the charity grant wishes to 30 children with life-threatening illnesses.” (May 19, 2008)

Leadership and Communication with Stakeholders

COMMUNICATION, CULTURE, LEADERSHIP, DIVERSITY, and HIRING are in a group named *Leadership and Communication with Stakeholders*. Leadership change was emphasized by casual dining firms, primarily to effectively communicate with stakeholders. Establishing a strong culture of leadership within the organization and to, accordingly, sharing the company's vision with employees made it easier to communicate with employees. A challenge facing organizations is to get all employees, from hourly workers to executives, to realize the importance of embracing diversity in order to achieve a competitive edge. Firms emphasizing the diversity of the workforce, like Darden Restaurants, often benefit from a collection of different experiences, backgrounds, and cultures that can help view problems and challenges through a wide variety of lenses.

- “There is heavy focus on leadership training for restaurant managers to create a fun atmosphere and a great working environment in both the front- and back-of-the-house.” (June 10, 1996)
- “Leadership change was fueled by "philosophical differences of opinion on how to move the company forward” (Nov. 10, 1997)
- "Those who share your goals and values with employees will require very little supervision. Shared goals will always create a win-win situation for your organization. And let your employee know you care and listen to them. Adopt a bottom-up communication policy." (Dec. 22, 1997)
- “Identifying an organization's values or mission statement is just the beginning. It's up to us as leaders, every single day to enforce the culture and values with our daily activities. If we are not out there with the people in the trenches, on a regular basis, recognizing those people who emulate the values and talking about the values, then it is just another corporate document.” (May 14, 2001)

Location and Construction

Casual dining firms bring construction, site analysis and real-estate expertise to the business for their constant growth. The activities are summarized in location seeking for new construction based on five words: BUILDING, DESIGN, LOCATION, CONSTRUCTION, and MALLS. This strategy choice is named *Location and Construction*. Firms look for future construction sites that would provide customer traffic using the old-fashioned way: counting cars going through intersections, checking if future construction plans would impede traffic flow, and assessing the businesses in the area. Since 2003, the restaurant industry has tended to employ the application of technology by adding the modeling methods of the site-selection tool box.

- “Perhaps the biggest lesson we learned was that shopping malls and airports are not exactly alike. In an airport holidays are no busier for the retail operations than any other time of year, except for perhaps the day before Thanksgiving or Christmas.” (Dec. 3, 1997)
- “More than a dozen soon-to-open restaurants by high-profile regional and national operators were dealt a blow by a six-alarm fire that swept through a large section of the sprawling, \$500 million Santana Row retail-residential development here a Chilis branch, whose construction site was the focus of an official investigation into the cause of the massive blaze.” (Sept. 2, 2002)
- “The real-estate departments of such chain conglomerates as Brinker and AFC Enterprises, which are noted for their "data-mining" techniques, have long made use of numerical modeling to select sites...and at such users as the Palm Inc., Ruth's Chris Steak House, Lettuce Entertain You Enterprises, Smith & Wollensky and Morton's Restaurant Group, a real-estate broker's call about a grade-A location on Main Street is no longer sufficient on its own to trigger the signing of a lease. But the restaurant industry wasn't always enamored of the modeling methods that now are being used more widely” (Feb. 3, 2003)
- “I just came back from Seattle looking at potential sites, and I did it the old-fashioned way, I counted cars going through intersections; I visited the city planning department to see what future construction plans might impede traffic flow; and I assessed the businesses and occupancy rates in the area.” (Feb. 7 2003)

Safety and Health

The group of CONTROL, RISK, SAFETY, SUPPLIERS, HEALTH, and NUTRITION is termed *Safety and Health*. Food safety is becoming a primary concern among casual dining firms, as customers and employees are more aware of and conscious about *safety and health* issues. Casual dining firms changed their purchasing, receiving, storage, and production procedures to improve food safety. They also began to demand this kind of quality assurance and assistance from many suppliers. Firms also decided to include nutritional information on the menu such as calories, fat, carbs, and fiber to meet regulatory requirements and customer's expectations about health concerns.

- “Potential new suppliers are sent a booklet of all Darden's requirements, including specifications for product and sanitation. If they become suppliers, they must pass an annual plant inspection by an objective third-party organization like the American Institute of Baking. Darden's distributor also must go through annual third-party inspections, and has developed its own HACCP program to monitor safety of food that passes through its system.” (Mar. 24, 1997)
- “Ruby Tuesday: casual-dining concept thinks up 'Smart Eating' initiative and places nutrition information right on the menu. Producing two new menus a year is the norm for casual-dining giant Ruby Tuesday Inc. But when those menus include some 30 new low-carb dishes and nutrition information, that's innovation. ” (May 10, 2004)
- “Operators say they're introducing these whole-grain noodles to include more menu choices and to satisfy customer interest in healthier eating. They wanted to be able to offer more health options for our guests, and we knew that whole grains were becoming more and more popular with the general public as well as our guests.” (Oct. 8, 2007)

Technology Innovation

COMPUTER, INTERNET, TECHNOLOGY, and SOFTWARE obviously indicate *Technology Innovation* in the casual dining industry. Casual dining operators embrace technology in an array of ways, shapes and forms in an effort to improve sales, lower cost and enhance bottom-line profitability. They keep pace with technology and allocate hundreds of millions of dollars annually toward point-of-sales systems, information technology,

communication systems, and dining-room and kitchen systems. Operators believe that technology at the unit level makes employees more efficient, leaving them more time to deal with customers and improve server-guest relationships.

As social media such as Facebook, Myspace, and Twitter has become a new way to communicate with people, and generation Y is becoming a large part of the workforce as well as the customer base, since 2008 restaurant firms have been creating online networks for employee and customer interaction.

- “Many progressive operators are implementing kitchen technology and automated kitchen systems to simplify labor, PC-based management systems to control cost, software packages to beef up marketing efforts and high technology gadget to add the "wow" factor for their customers.” (Nov. 1, 1996)
- ““People using today's POS systems probably get more information than they ever can handle. It's whole new generation with regard to point-of-sale. And much more user-friendly, especially in the order entry. Now you have a choice of keypads, touch-screens or even light pens to make it easier. As an example of advancements and information management within foodservice circles, PC-based systems "talking" to each other for automatic rendering of inventory control billing, hand-held devices are expediting orders to the kitchen and servers are being reminded periodically to check on tables and recommend menu items.” (Oct. 21, 1996)
- “The Cheesecake Factory Inc.'s manager accepted the FS/TEC Project Excellence award for their company's Web-based scheduling and communication platform supported by HotSchedules Workforce Solutions.” (Oct. 29, 2007)
- “Thomas and King, a Lexington, Ky.-based franchisee of about 90 Applebee’s Neighborhood Grill & Bar and Carino's Italian Grill restaurants, initially set up a corporate website for employee on MySpace. The company now is expected to launch its own private social-network site this month.” (May 19, 2008)

Human Resource Management

Human Resource Management is one of the representative strategy choices by firms indicated by the keywords: EMPLOYEE, TRAINING, and HUMAN. In the service industry, the greatest competitive edge of a company often comes from the quality of its employee. Training is critical for the casual dining industry, since the quality of services and products delivered by kitchen staff and servers is an important determinant of the operation's success. New forms of training have been added over time, such as computer-based training; the importance of training is still central to improving customer service in the restaurant business.

- “Sensing the growing interest in computer-based training using CD-ROMs, the Educational Foundation of the National Restaurant Association recently began offering a Serving Safe Food" interactive C.D. Educational Foundation staffers are working with some of the nation's Largest foodservice companies to customize the material included on that compact disc product. Brinker is straddling the CD-i CD-ROM fence by offering managers either format and a loan of a CD-i player if they need one” (Jan. 13, 1997)
- “The program, involving extensive training for front- and back-of-the-house staffers, along with the menu and price changes and increased promotion efforts, took a big bite out of Darden's bottom line.” (Jan. 6, 1997)
- Firms can solve a high turnover issue through a well-defined, concerted effort linked to managers who are linked to education, training and motivation. In the next decade new management practices and tools will be required to help lower high turnover of hourly workers. New management practices are better at dealing with a changing workforce that includes more foreign-born workers, more workers who lack high-school diplomas and more part-time employees who are over 65 and under 16 years old. Traditional training and communication methods need to be re-evaluated in successfully dealing with the changing workforce. Also, foodservice operators must learn to compete better with many other industries that are after the same employee pool. (Mar. 25, 2006)

Product Development -Brand, Menu, Concept

The next type of strategy choice is named *Product Development* and is based on five key words: BRAND, MARKETING, MENU, DIFFERENT, and PRODUCT. As the industry market becomes saturated, firms need to achieve competitive advantage by differentiating its products. Casual restaurants before the 1990s were mostly steak or Italian theme-based. In the mid 1990s, new companies with different concepts which generate more sales by the firms such as California Pizza Kitchen, Red Robin's, and P.F. Chang's China Bistro appeared. Firms even downsized full-service concepts for nontraditional locations, as in Chili's and The Cheesecake Factory. Menu engineering and new brand or concept launching are made as efforts to differentiate their products and services from other competitors. However, their differentiation is somewhat limited to menu and concept development rather than other unique product and service development.

- "A large part of the greater growth is due to a smaller Chili's prototype, which has enabled the company to move into smaller markets and fill in existing markets" (May 27, 2002)
- "They want to sell customer a steak, although they also want to sell you some side dishes built for two. Among the accompaniment choices priced from \$3 to \$4, are creamed spinach, ... All entree orders come with a chunk of iceberg lettuce topped with ...-- all listed at \$3.25. "We realized that was a way for us to differentiation us from the competition -- to have these really memorable side dishes and appetizers," (May 12, 1997)
- "Restaurants will show more branded offerings in less space as they try to capitalize on a greater brand presence, predicts Win Davis. He is president of Win-Formation Ltd. & Market Access, a brand development, research and communication firm in Richmond, VA. He cites T.G.I. Friday's, which takes out full-page newspaper advertising to promote its use of Jack Daniel's barbecue sauce on its signature ribs and chicken. Other shrewd users he mentions are CBRL, which serves Coca-Cola beverages, licensed apparel and glasses and the Hard Rock Cafe, which has shops inside its restaurants selling apparel and accessories bearing its name." (Sept. 29, 1997)

Unit Expansion- New Openings

EXPANDING, EXPANSION, OPENING, and FRANCHISEES are grouped together, indicating the growing number of units and the growth of franchising or other forms of alliances. This category is termed *Unit Expansion*. Between the 1970s and the early 1990s, the predominant growth strategy employed by chain restaurant companies was *unit expansion*. While the organic growth of units is still prevalent, reaching the mature stage of the industry forces firms to seek and adopt other growth strategy choices, such as franchising, joint venture, portfolio development, and international expansion. Among these strategy choices, casual dining firms generally plan their growth strategy using more traditional franchising methods.

- “Even full-service casual operators, which traditionally refrained from licensing their concepts, are joining the franchising fray, such as CPK, Houlihan's, Logan's Roadhouse, Ruby Tuesday, and New York city landmark Gallagher's Steak House.” (Apr. 21, 1997)
- “P.F. Chang's, which are primarily located near upscale malls, also could benefit as consumers grow more confident about the economy. Still, the company plans to open three to five Bistro, Pei Wei restaurants this year, but is considering opening 10 to 15 of its smaller Pei Wei locations next year. The company recently had 197 Bistro and 166 Pei Wei stores.” (Feb. 17, 2010)

Balancing between Cost and Quality: Franchising, Purchasing, Labor retention

The last type of strategy choice is *Balance between Cost and Quality*: COST, QUALITY, LABOR, FRANCHISING, PURCHASING, and TURNOVER. Unlike fast food restaurant firms, casual dining firms are struggling with balancing the cost reduction and quality improvement. With each turnover, there is a loss of productivity. Extra training time and labor cost is necessary for a new hire until they get up to speed. This also leads to a low quality of service due to the lack of experience of a new employee. The use of franchising is another way to reduce operating expenses, but it requires effective controls and relationships with franchises in order to improve and maintain the quality of products and services, as purchasing management is a critical component of food cost control and quality improvement. To offset the escalating cost of commodities, firms are reviewing the lengths and terms of their purchasing contracts, revamping

their purchasing strategies to take advantage of greater economies of scale and more carefully weighing the development of new menu items. Using various methods, casual dining firms try to appeal to customers with high quality foods at low costs.

- “Now more than ever before, keeping both guests and employee satisfied is a necessity in foodservice -- a relatively low-margin, labor-intensive industry that yields a premium return on investment only when customer-traffic is high and employee turnover is low. As a result, operators are looking to technology to help automate some of the tasks handled by telephone customer-service centers, employee-help desks and telemarketing ventures. The goal is to increase the efficiency of such endeavors” (Nov. 11, 1996)

Proposition Three: *Casual dining restaurant firms change their strategy choices in response to changes in the industry cycle*

Once the content analysis revealed key words and subsequent content categories, the frequency of occurrence of key words for each strategy choice was counted as a measure of the emphasis of the strategy choice. Then, the emphasis of each strategy choice was compared with the change in the industry to understand how casual dining firms change their strategy choices in response to the phase change in the industry cycle.

The frequency of occurrence of strategy choice variables was counted at both the industry and the firm level. Specifically, at the industry level, all texts for the casual dining industry used in Proposition Two were included to count the occurrence of strategy choice variables (i.e. frequency count of key words) and the percentage of the occurrences of particular strategy choice variables over the occurrence of all key words of strategy choices. The former was used to examine the degree of emphasis on a particular strategy choice over time, and the latter was used to understand the relative emphasis of the strategy choice within a company. At the firm level, the frequency of the occurrence of strategic variables by firm was counted in texts for ten major casual dining firms: Applebee's/DineEquity (APPB), Brinker International (EAT), Cheesecake Factory (CAKE), Darden Restaurants (DRI), O'Charley's (CHUX), OSI Restaurant

Partners (OSI), P.F. Chang's (PFCB), Rare Hospitality (RARE), Ruby Tuesday (RT), and Texas Roadhouse (TXRH).

The study analyses the relationship between strategy choices made by the casual dining industry and the restaurant industry cycle in two ways. First, analysis of data through graphical presentation of the industry cycle and strategy choices was used for a preliminary investigation of the relationships. Next, using the panel data¹³ from ten major casual dining firms, one-way analysis of variance (ANOVA) was employed to validate the findings from the descriptive analysis by investigating whether significant differences in strategy choices exist between cycle phases.

Overall Trends in Strategy Choices

The aggregate number of strategy choices made by casual dining firms showed co-movements with changes in the industry cycle, although there were time lags between them. The total number of strategy choices made by casual dining firms lagged 1-3 quarters between 1999Q3 and 2008Q3, while leading the cycle before 1999Q3 (Figure 18). The dominant strategy choices were Product Development through new concepts, brands, and menus (22% for the period investigated) and Balance between Cost and Quality strategy choice (16%), followed by Unit Expansion strategy choice (9%). Six strategy choices accounted for 6-8% of all of the strategy choices made by casual dining firms: Safety and Health (8%); Human Resource Management (7.48%); Technology Innovation (7.34%); Pricing and Promotion (6.59%); Mergers and Acquisitions (5.94%); and Location and Construction (5.29%). Three strategy choices such as Eco-friendly and Energy Efficient Production, Leadership and Communication with Stakeholders, and Service Development accounted for around 3%. The least popular choice was Community Involvement, which accounted for 1.76% of the mix of strategy choices.

The mix of strategy choices illustrated in Figure 19 was used to identify long-term patterns in strategy development. Casual dining firms still rely on traditional growth strategies such as Product Development, Unit Expansion, and Mergers and Acquisitions, although unit growth through new openings (i.e. Unit Expansion) has been slow compared to other growth strategies. Service Development has been emphasized more since 2007Q3. Safety and Health

¹³ Data that include both multiple units (e.g. firms in this study) and multiple time periods. This displays both cross sectional and time series variations

Strategy Choices became important in 2004Q3. Other than Safety and Health and Service Development, the mix of strategy choices has changed over time.

Figure 18: Relationship between the Restaurant Industry Cycle and the Aggregate of Strategy Choices

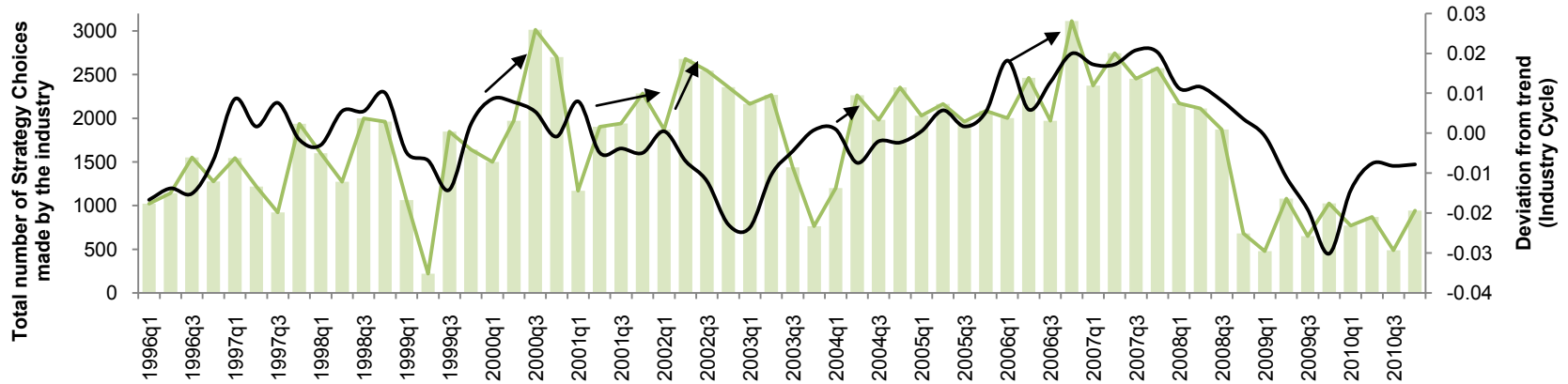
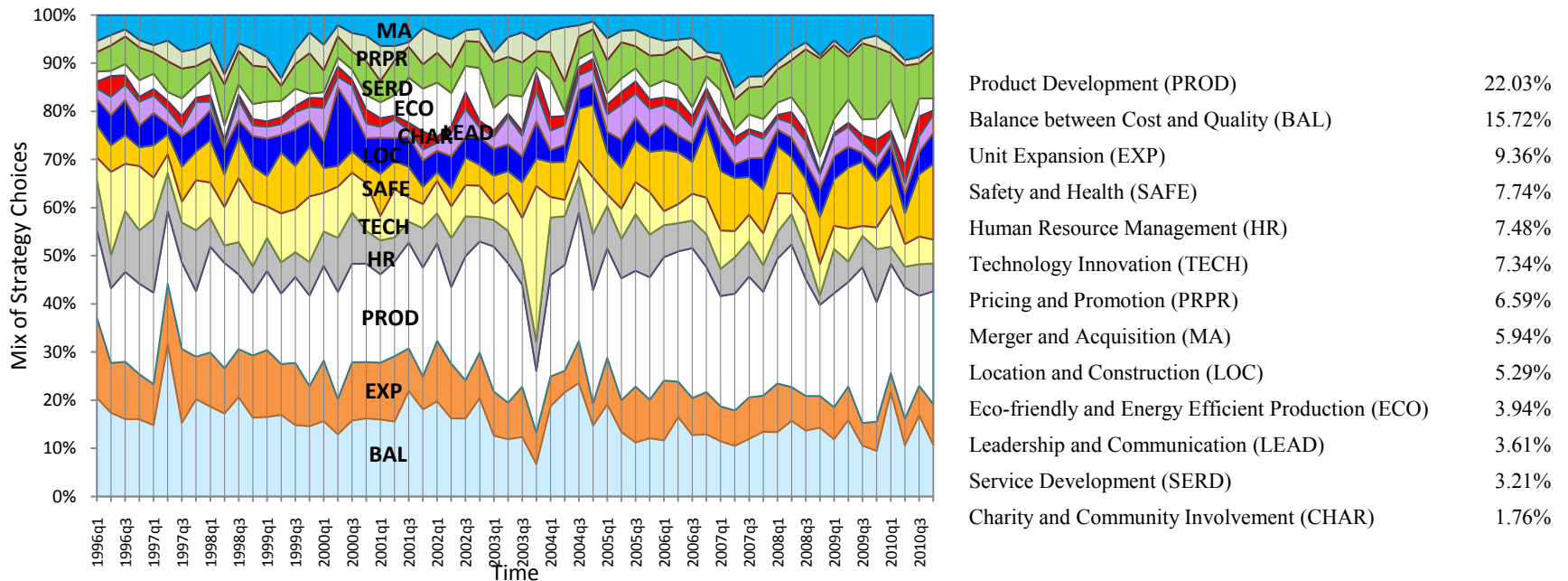


Figure 19: Relative Dependency among Strategy choices (2006Q1-2010Q4)



Industry's Response to the Restaurant Industry Cycle

The purpose of the analysis is to determine whether casual dining firms change their strategy choices in response to changes in the industry cycle phase. The longitudinal analysis through mapping strategy choices proposed by Langely et al. (2007) (Table 12-1 to Table 12-13) at the firm level (including ten casual dining firms) and graphing the total number of strategy choices at the industry level (including most casual dining chains in US) over the industry cycle (Figure 20-1 to Figure 20-13) were carried out for the purpose. A darker shaded cell in Table 12s indicates a higher frequency of the subject strategy choice and the number is the frequency count of occurrence of the strategy choice by firm by quarter. In the Figure 20s, shaded areas indicate the frequency of strategy choices and the line chart is the restaurant industry cycle.

Note: MA=mergers and acquisitions, SERD=Service development, PRPR=pricing and promotion, ECO=eco-friendly and energy efficient production, CHAR=community involvement, LEAD=leadership and communication with stakeholders, LOC=location and construction, SAFE=safety and health, TECH=technology innovation, HR=human resource management, PROD=product development, EXP=unit expansion, and BAL=balance between cost and quality.

The following are findings made by comparing the frequencies of strategy choices and phases of the industry cycle through two types of pictorial presentations.

Overall Findings

- Casual dining firms did change their emphasis on a strategy choice to be responsive to a change in the phase of the industry cycle. Choices with significantly different frequency of occurrence over the industry cycle are Mergers and Acquisitions, Service Development, Eco-friendly and Energy Efficient Production, Location and Construction, Safety and Health, Product Development, Unit Expansion, and Balance between Cost and Quality.
- Growth strategy choices (Product Development and Unit Expansion), Pricing and Promotion and Balance between Cost and Quality are very common choices for most key casual dining firms. Increasing interests in health/safety, community and green initiatives are found.
- Most strategy choices were emphasized more during recessions, and the frequency of adoption and consideration of strategy choices during recoveries were generally low.

- The analysis indicates a relatively high degree of homogeneity of strategy choices among casual dining firms. Casual dining firms, in general, followed each other's strategy choice decisions closely; the frequencies of occurrence of a strategy choice similarly increased or decreased over time (Table 12s).

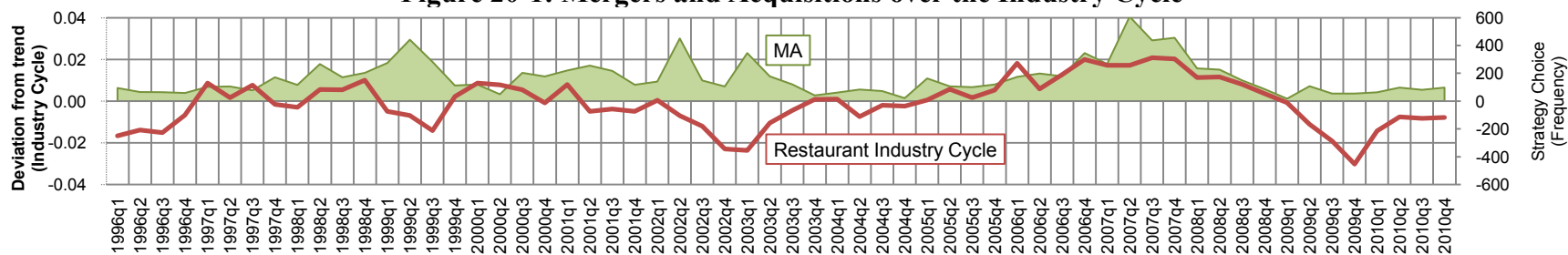
- Mergers and Acquisitions:** A great deal of Mergers and Acquisitions occurred between 2006Q1 and 2008Q3, during which the industry cycle showed very high positive amplitude. Applebee's, Darden, and OSI Partners contributed the increase in this strategy choice. Firms focused more on mergers and acquisitions when the deviation from the long-term trend was high (around peaks and troughs) with the exception of the period between 2009 and 2010.

Table 12-1: Longitudinal Mapping of Mergers and Acquisition by Firm

SC	Firms	1996q1	1996q2	1996q3	1996q4	1997q1	1997q2	1997q3	1997q4	1998q1	1998q2	1998q3	1998q4	1999q1	1999q2	1999q3	1999q4	2000q1	2000q2	2000q3	2000q4	2001q1	2001q2	2001q3	2001q4	2002q1	2002q2	2002q3	2002q4	2003q1	2003q2			
MA	APPB	14	20	30	19	44	41	33	22	78	38	46	41	37	47	40	25	20	14	35	28	22	38	34	26	26	35	40	31	49	39			
MA	EAT	29	36	7	25	33	42	7	39	23	29	38	38	36	45	52	22	26	30	36	30	42	24	11	23	95	35	8	25	46				
MA	CAKE	8			8	8		7	10		25	20	19	34	54		11	15	10	27		28	28	27	26	12	22	7	6	40	10			
MA	DRI	25	9	8	6	9	11		27	15	45	35	29	29	51	42		23	8	39	25	30	35	12	15	18	77	19	20	34	31			
MA	CHUX										25		17	14	51	18	14	10		10	24	42	29	19	8	10	64	20	19	22	14			
MA	OSI	10		13		8		23	7		36		26	31	63	44	12	14	8	11	19	21	22	34	16	15	39	17	7	52	38			
MA	PFCB								12					27	34	29	15	11	9	26	18	16	24	27		9	17	10	8	42				
MA	RARE			6			11	7	41		24		19	34	49	30				12	21	13	30	11	7	9	19			41				
MA	RUBY	8							13		44		14	32	47	28	13			7	6	18	7	29	8	18	82			6	40			
MA	TXRH																			6														

SC	Firms	2003q3	2003q4	2004q1	2004q2	2004q3	2004q4	2005q1	2005q2	2005q3	2005q4	2006q1	2006q2	2006q3	2006q4	2007q1	2007q2	2007q3	2007q4	2008q1	2008q2	2008q3	2008q4	2009q1	2009q2	2009q3	2009q4	2010q1	2010q2	2010q3	2010q4		
MA	APPB	20	6	9	12	13	10	20	12	16	16	10	36	31	30	72	197	99	129	61	43	49	26	38	24	19	6	24	18	19			
MA	EAT	11		8	16	10		27	13	26	17	28	31	29	56	52	66	20	34	11	39	19	19	8	35	7	6	7	18	35	12		
MA	CAKE	10			11			7	7			16		23	11	15	26		20	17	31	13	10				10	10	6				
MA	DRI	19	35	35	8	22		18	10	23	20	15	49	41	35	34	81	146	96	56	27	47	23		18	10	7	40	22	22	16		
MA	CHUX	6				6		21	15		8	21	37	8	33			35	20		8				10								
MA	OSI	23		9	8	13		17	19	13	23	40	17	19	113	61	213	70	74	57	35	7		9	13						36		
MA	PFCB	10			8	8		26	14	11		23	14	27	45		17	10	17	10	10	14	8		6						7		
MA	RARE						14					12			22	24	7	46	59	7	17												
MA	RUBY	7						16	11	25						9	7	10	6	16	16						7		17		7		
MA	TXRH	14			20		11	13			10	9	14													6							

Figure 20-1: Mergers and Acquisitions over the Industry Cycle



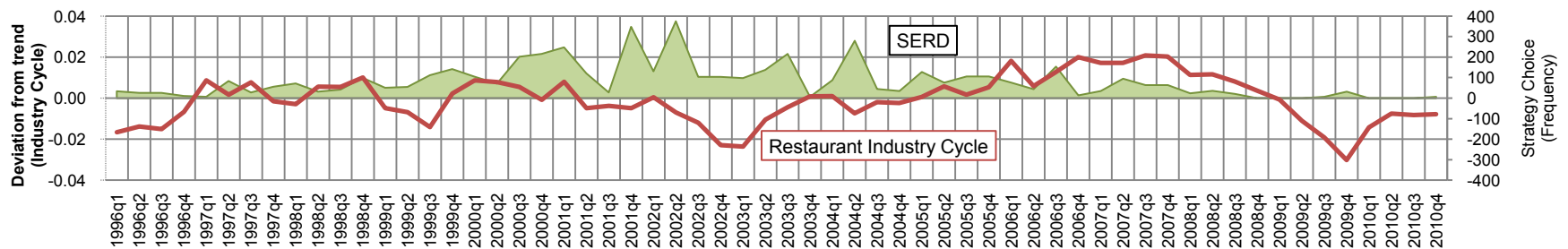
- *Service Development*: Firms adopted Service Development strategy choice more when the industry cycle stayed close to the horizontal axis, the long-term trend line, especially during late contractions or early recessions. OSI and Brinker are major firms who use the strategy choice.

Table 12-2: Longitudinal Mapping of Service Development by Firm

SC	Firms	1996q1	1996q2	1996q3	1996q4	1997q1	1997q2	1997q3	1997q4	1998q1	1998q2	1998q3	1998q4	1999q1	1999q2	1999q3	1999q4	2000q1	2000q2	2000q3	2000q4	2001q1	2001q2	2001q3	2001q4	2002q1	2002q2	2002q3	2002q4	2003q1	2003q2
SERD	APPB		7				32	13		14	10	8	12		9	16	19	13	20	24	77	51	8		51	15	68	28	35	9	26
SERD	EAT	10	19	16	11	7	40	7	26	51	10	17	24	20	6	23	26	42	9	26	28	56	15	11	46	69	67	18	20	18	37
SERD	CAKE							8				7	6		9		19			30	6	53	12	7	52	10	52		11	11	8
SERD	DRI	10									6	10	8		8	10				43	24	47	19	10	48		63	18	16	23	18
SERD	CHUX											10				7	18				15	6	17		43	7	44	10		6	
SERD	OSI	14		10			6			7	7		33	25	8	27	17	44	24	57	27	8	24		76	9	54	15	16	17	24
SERD	PFCB								6					6	7	11	25	6	10	22	23	7	14		10	8	15	15	6	14	
SERD	RARE						6								8	9					16	7	12		7	7					
SERD	RUBY								24							9	18								15	6	12				25
SERD	TXRH																														

SC	Firms	2003q3	2003q4	2004q1	2004q2	2004q3	2004q4	2005q1	2005q2	2005q3	2005q4	2006q1	2006q2	2006q3	2006q4	2007q1	2007q2	2007q3	2007q4	2008q1	2008q2	2008q3	2008q4	2009q1	2009q2	2009q3	2009q4	2010q1	2010q2	2010q3	2010q4
SERD	APPB	27	7	7	23		14	14	23	29	23	27	11	20	7	16	16	15	8	15	12					7					
SERD	EAT	38		39	9		8	66	6	16	27	12	12			13	14	7	26												
SERD	CAKE	47			67	10	6		16		6		23			16	7	7		14	7										
SERD	DRI	18						16	8	23	13		6	36	7		20	18	7		10						6				
SERD	CHUX											9	14						10												
SERD	OSI	59		42	64	12		6	11	13	28	31	6	17						13	8										
SERD	PFCB	27			7		7	18	8	6		12		16													9				7
SERD	RARE																														
SERD	RUBY				110	15		8	6	19	15			16		6	7	9	6								7				
SERD	TXRH																										10				

Figure 20-2: Service Development over the Industry Cycle



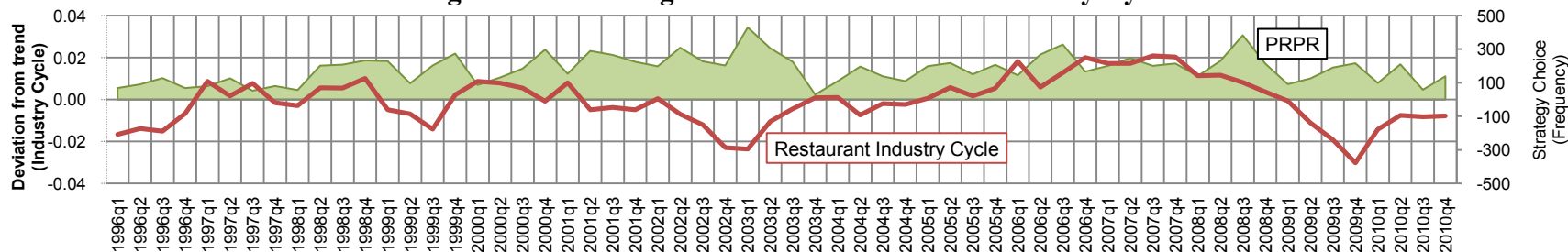
- Pricing Tactics and Promotion:** Firms have consistently utilized pricing promotions or other forms of marketing tactics. They slightly increased their emphasis on marketing strategy choices during the recovery phases of the industry cycle. While most firms maintain this strategy choice, Ruby Tuesday aggressively used Pricing and Promotion compared to other strategy choices.

Table 12-3: Longitudinal Mapping of Pricing and Promotion by Firm

SC	Firms	1996q1	1996q2	1996q3	1996q4	1997q1	1997q2	1997q3	1997q4	1998q1	1998q2	1998q3	1998q4	1999q1	1999q2	1999q3	1999q4	2000q1	2000q2	2000q3	2000q4	2001q1	2001q2	2001q3	2001q4	2002q1	2002q2	2002q3	2002q4	2003q1	2003q2		
PRPR	APPB	12	19	73		20	50	16		21	45	33	58	40	6	40	44	27	25	40	77	19	47	46	52	34	53	45	51	44	69		
PRPR	EAT	15	22	6	16	17	36	11	27	13	28	45	58	39	21	28	35	16	10	27	51	13	27	27	20	45	44	41	22	66	45		
PRPR	CAKE				9				7		33	6	11	26	17	12	41	6	15	24	10	18	46	33	32	15	50	18	21	34	15		
PRPR	DRI	27	40	14	23	9	14	7	27	12	15	109	63	37	20	42	29	26	19	54	50	21	46	33	33	29	64	40	24	116	69		
PRPR	CHUX	7		7				10			17		12	11	6	13	36			29	36	34	31	14	14	20	34	18	40				
PRPR	OSI	8	10	28	21	15	10		20	11	33	15	23	20	9	39	41	6	34	8	11	18	31	39	54	19	38	44	26	64	44		
PRPR	PFCB													21		11	24	6	20	20	33	9	33	30		6	11	6	15	34	7		
PRPR	RARE					19	10				19			15	6	10				29	11	16	16	9	6			11	8	15			
PRPR	RUBY						7	9			12		8	20	12	8	24		9	12	8	9	10	11	11	30	29		15	24	19		
PRPR	TXRH																																23

SC	Firms	2003q3	2003q4	2004q1	2004q2	2004q3	2004q4	2005q1	2005q2	2005q3	2005q4	2006q1	2006q2	2006q3	2006q4	2007q1	2007q2	2007q3	2007q4	2008q1	2008q2	2008q3	2008q4	2009q1	2009q2	2009q3	2009q4	2010q1	2010q2	2010q3	2010q4	
PRPR	APPB	27	6	25	95	35	26	50	95	28	26	18	75	66	46	43	59	56	64	39	62	73	54	22	17	66	50	31	65		39	
PRPR	EAT	22		6	13	8	47	12	19	36	18	38	24	29	57	15	12	16	19	23	33	47	8	20	31	37	18	32		15		
PRPR	CAKE	20			12	19	12		7	21	16	25	47	7	8	19	12	18	6	25	67	9		7	8	13	14	19		9		
PRPR	DRI	40	24	53	13	45	10	24	27	41	37	26	26	48	27	36	53	56	17	19	48	98	58	9	40	52	33	30	23	45	45	
PRPR	CHUX	23			10			19	13		15	7	25	20	11	7	29	6	23	15	14	35		14		6		10				
PRPR	OSI	32		9	10	13	12	9	25	29	34	28	27	48	26	31	45	12	20	13	20	21	40	44	10	18	12		8	14	7	
PRPR	PFCB	18			7	9	10	18		14	15	9	10	29	10		17	13	20		7	33		6	9	15		27		9		
PRPR	RARE	22			7	7		12				7	10					16			11											
PRPR	RUBY	21		17	23	11	32	10	39	20	15	16	32	40	11	12	10	6	37	30	20	23	6	9	12	7	30	6	10		15	
PRPR	TXRH				7			10			8			6		7		12								20		16				

Figure 20-3: Pricing and Promotion over the Industry Cycle



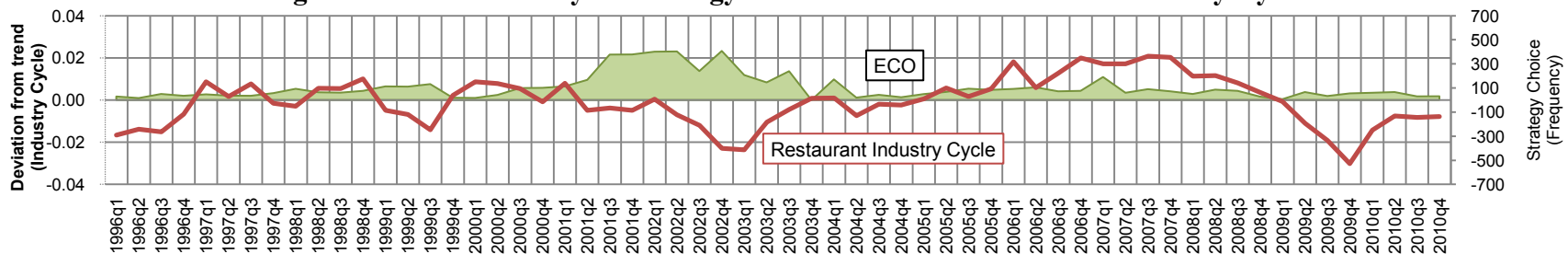
- *Eco-Friendly and Energy Efficient Production*: The strategies for facilitating green growth and energy efficiency were the most popular between 2001Q1 and 2004Q1. During several recession periods, this strategy choice was of importance. However, in general, they were not clearly linked to changes in the industry cycle. Darden was generally the first mover for environmentally friendly and energy efficient production.

Table 12-4: Longitudinal Mapping of Eco-friendly and Energy Efficient Production by Firm

SC	Firms	1996q1	1996q2	1996q3	1996q4	1997q1	1997q2	1997q3	1997q4	1998q1	1998q2	1998q3	1998q4	1999q1	1999q2	1999q3	1999q4	2000q1	2000q2	2000q3	2000q4	2001q1	2001q2	2001q3	2001q4	2002q1	2002q2	2002q3	2002q4	2003q1	2003q2
ECO	APPB		6	19		9				19				22	25	25		6	15	16	14	12	17	65	56	55	51	42	44	13	30
ECO	EAT	6			18	18	13	11	28	23	21	14	22	41	41	11	9	11	8	17	17	13	20	14	39	31	43	40	51	18	14
ECO	CAKE																		7	7		12	17	29	32	23	43	6	42	26	7
ECO	DRI	23	10	22	17	20	14	24	29	51	37	23	35	42	45	42	10			47	45	9	56	145	99	41	52	35	70	44	12
ECO	CHUX																			6	31	12	29	37	50	52	53	41	24		
ECO	OSI			9			9				6	24	19	8		42			12	6	11	6	13	40	79	48	43	64	43	30	32
ECO	PFCB															6						10	20	27		49	22		39	19	
ECO	RARE															6				6		8	12	13		50	47		35	15	51
ECO	RUBY																				8	12		15	36	54	50		42	18	
ECO	TXRH																														

SC	Firms	2003q3	2003q4	2004q1	2004q2	2004q3	2004q4	2005q1	2005q2	2005q3	2005q4	2006q1	2006q2	2006q3	2006q4	2007q1	2007q2	2007q3	2007q4	2008q1	2008q2	2008q3	2008q4	2009q1	2009q2	2009q3	2009q4	2010q1	2010q2	2010q3	2010q4
ECO	APPB	32		19		10	14	21		12	7	9	19	23	15	9	17	24	40	17	6	19				13	6		8		7
ECO	EAT	29		18	8	12		28		24	15	40	11	11	28	69	10	6		6	10	7			7		10	8		14	18
ECO	CAKE	33		19	6	10		10				8	9		6	7	7														
ECO	DRI	35		24	6	6	9		11	29	16	17	36	13	21	49	12	30		12	61	34	18		29		16	32		6	6
ECO	CHUX	12		15		7					11	6	8						15	8									10	10	
ECO	OSI	30		21					23	11	17		23	6	12	58	7	14										36			
ECO	PFCB	22		16						10	10	10		10																	
ECO	RARE	8		16																				23							
ECO	RUBY	16		23					23	8		10															14				
ECO	TXRH	10									8						7									9					

Figure 20-4: Eco-friendly and Energy Efficient Production over the Industry Cycle

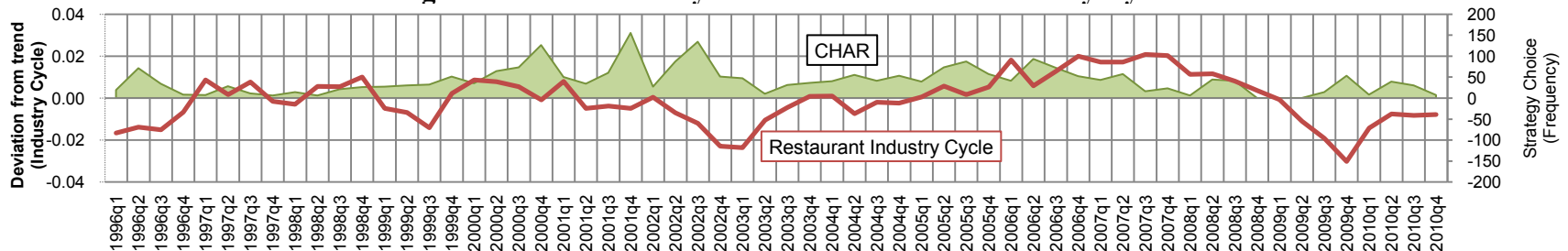


- Community Involvement:** Community Involvement strategy choice has increasingly occurred since 2000Q2. Casual dining firms were more responsive with *community involvement* during recessions (i.e. 2002Q2-2002Q3, 2004Q2, and 2009Q3-2009Q4) and the quarter following September 11 in 2001. Overall, emphasis on *community involvement* followed the opposite direction of the cycle, although its change was not significant. Applebee's was a leader in terms of its charitable activities and community involvement.

Table 12-5: Longitudinal Mapping of Community Involvement by Firm

File		1996q1	1996q2	1996q3	1996q4	1997q1	1997q2	1997q3	1997q4	1998q1	1998q2	1998q3	1998q4	1999q1	1999q2	1999q3	1999q4	2000q1	2000q2	2000q3	2000q4	2001q1	2001q2	2001q3	2001q4	2002q1	2002q2	2002q3	2002q4	2003q1	2003q2	
CHAR	APPB		12	19			13		6			7	8	10	10	17	9	14	13	19	6			24	7	24	17	17	6			
CHAR	EAT	8	11	9	8	7	9			8	6	11	7	8	7	8	10	10	12	7	21			16	11	15	28	10	7			
CHAR	CAKE															8	10	10	9		7										10	
CHAR	DRI	11	48				6					10	6	6	13	14	8	16		21	26	15	13	33	25		33	19	8	26		
CHAR	CHUX																			13	9			21			7	8				
CHAR	OSI			6						6		6	7					18	12	8	13		14	37		8	47	8	8			
CHAR	PFCB																	10	11	23		21	13									
CHAR	RARE															8				16												
CHAR	RUBY						11																	18								
CHAR	TXRH																							14	9		16					
File		2003q3	2003q4	2004q1	2004q2	2004q3	2004q4	2005q1	2005q2	2005q3	2005q4	2006q1	2006q2	2006q3	2006q4	2007q1	2007q2	2007q3	2007q4	2008q1	2008q2	2008q3	2008q4	2009q1	2009q2	2009q3	2009q4	2010q1	2010q2	2010q3	2010q4	
CHAR	APPB	6	16	21	42	6	13	14	42	27	12	25	41	30	13	11	15	6	14	6	18	12				14	24		27	7		
CHAR	EAT					6	12	7	11	14		6	9	24	15	19					14					14	8					
CHAR	CAKE		6		7							6	9					9														
CHAR	DRI	19	14	6		17	18	6	8	19	12	8	12	17	7	17	7	10			9	15					6			17	7	
CHAR	CHUX										7																					
CHAR	OSI	6				18	16		16	6	19	8	21	7	8		16									9						
CHAR	PFCB							7		11																						
CHAR	RARE																															
CHAR	RUBY			13	6																17											
CHAR	TXRH																															6

Figure 20-5: Community Involvement over the Industry Cycle



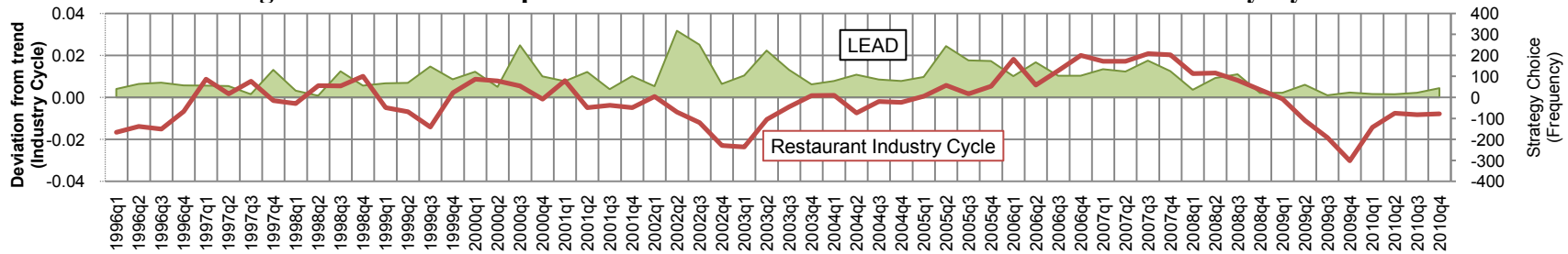
- *Leadership and Communication*: Although we found more emphasis on *leadership development and communication with stakeholders* between 1999Q2 and 2008Q3, no linkage with the industry cycle was observed. Large firms within the casual dining industry had high frequencies of occurrences of this strategy choice.

Table 12-6: Longitudinal Mapping of Leadership and Communication with Stakeholders

SC	Firms	1996q1	1996q2	1996q3	1996q4	1997q1	1997q2	1997q3	1997q4	1998q1	1998q2	1998q3	1998q4	1999q1	1999q2	1999q3	1999q4	2000q1	2000q2	2000q3	2000q4	2001q1	2001q2	2001q3	2001q4	2002q1	2002q2	2002q3	2002q4	2003q1	2003q2	
LEAD	APPB		13	28	8	10	14		21	7		9	18	9	17	24	14	27	12	43	26	7	15	7	12	13	102	74	9	9	53	
LEAD	EAT	7	22	12	10	21	23		37	9	8	14	12	8	13	32	23	35	6	12	29	7	16	7	13	27	21	79	12	19	107	
LEAD	CAKE	7			8			8				31	10	8	13	11	8	9	40	14	12	24	7	25		16						
LEAD	DRI	11	12	15	21	10	17	7	20			57	16	24	16	23	25	41	8	80	21	24	28	18		140	45	31	51	36		
LEAD	CHUX		17			8									7							10										
LEAD	OSI	15		15	10				22	16		13		26	8	21	6	11	15	53	10	17	24		28	6	14	42	6	11	12	
LEAD	PFCB								10						12	7				13					8	7	16					
LEAD	RARE					7			11						7	8									15							
LEAD	RUBY															7				7			14			8					6	
LEAD	TXRH							10																								

SC	Firms	2003q3	2003q4	2004q1	2004q2	2004q3	2004q4	2005q1	2005q2	2005q3	2005q4	2006q1	2006q2	2006q3	2006q4	2007q1	2007q2	2007q3	2007q4	2008q1	2008q2	2008q3	2008q4	2009q1	2009q2	2009q3	2009q4	2010q1	2010q2	2010q3	2010q4	
LEAD	APPB	72	27	20	62	6	37	14	62	36	41	6	33	8	21	17	21	28	27	13	16	17						9	6		10	
LEAD	EAT	6		21	6	6	9	6	45	31	44	75	12	15	24	33	27	10	15		7	6			38		6		6	7		
LEAD	CAKE			6	6	6	11	10	23	18	8		9	8			9	19		16	12										8	
LEAD	DRI	45	35	22	6	16	8	35	49	57	46	9	53	39	36	49	42	82	34	17	27	58	21	14	8	10	10	7	9	16	11	
LEAD	CHUX						7		9			11							6	6			8									
LEAD	OSI	8		9	8	40		10	22	7	10	11	37	25	10	35	16	7			6	17				7						
LEAD	PFCB						6	10		14											6					8						
LEAD	RARE					9			22		15		12		6			39	22													
LEAD	RUBY				26	8		12	12	13				8	6		17			8											8	
LEAD	TXRH										9													6								

Figure 20-6: Leadership and Communication with Stakeholders over the Industry Cycle



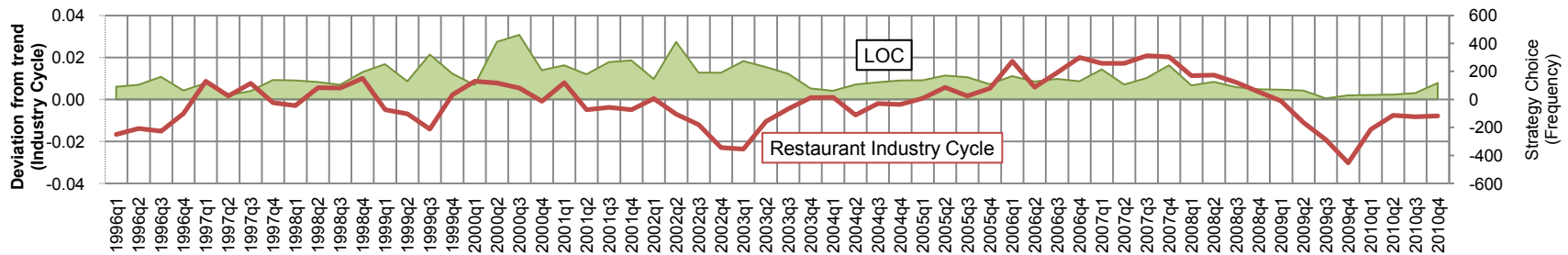
- *Location and Construction*: This strategy choice was very popular between 1998Q4 and 2003Q3. No linkage between strategy choice and the industry cycle was found.

Table 12-7: Longitudinal Mapping of Location and Construction by Firm

SC	Firms	1996q1	1996q2	1996q3	1996q4	1997q1	1997q2	1997q3	1997q4	1998q1	1998q2	1998q3	1998q4	1999q1	1999q2	1999q3	1999q4	2000q1	2000q2	2000q3	2000q4	2001q1	2001q2	2001q3	2001q4	2002q1	2002q2	2002q3	2002q4	2003q1	2003q2		
LOC	APPB	12	24	56	13	21	13	10	13	28	12	19	34	21	21	56	23	28	35	46	46	37	27	28	40	29	86	35	33	29	35		
LOC	EAT	20	21	28	19	27	11	15	35	29	34	32	51	27	23	57	40	24	90	55	39	53	23	50	22	33	96	48	35	51	54		
LOC	CAKE	11	11	31		43		15	21	38	28	11	19	32	19	20	23	17	72	124	27	26	23	28	37	20	33	14		21	72		
LOC	DRI	26	28	8	10	17		7	25	22	15	22	25	27	21	43	17	15	26	97	35	33	16	55	38	8	62	23	35	69	22		
LOC	CHUX										23		9	16	7	20	14			11	10	25	23	29	16	8	48	25	16	8			
LOC	OSI	21	8	28		8		12	13	11		20	22	23	17	41	20	11	92	50	18	17	24	23	69	24	34	33	11	38	18		
LOC	PFCB				21				10			12	29	14	42	25	7	30	41	15	12	17	37	35	7	24	7	20	39	13			
LOC	RARE							12			12		14	50	7	23	9			17	6	11	10	7	9				8	9			
LOC	RUBY		12	10			6			7			9	26		18	14			66	8	12	29	16	9	12	16	27		40	10	8	
LOC	TXRH							9												11								6					

SC	Firms	2003q3	2003q4	2004q1	2004q2	2004q3	2004q4	2005q1	2005q2	2005q3	2005q4	2006q1	2006q2	2006q3	2006q4	2007q1	2007q2	2007q3	2007q4	2008q1	2008q2	2008q3	2008q4	2009q1	2009q2	2009q3	2009q4	2010q1	2010q2	2010q3	2010q4		
LOC	APPB	28	27	18	39	14	38	40	39	38	24	22	52	17	25	80	27	19	43	20	30	10	9		14			18	19		25		
LOC	EAT	20		6	8	10	20	22	13	23	16	38	27	19	22	26	24	10	20	13	8	17	7	6	9		13			10	7		
LOC	CAKE	30	13	6	19	30	25	29	23	11	9	22		21	13	18	8	26	74	10	21	31	20	8	8					13	27		
LOC	DRI	23	15		6	11	17	15	36	28	18	14	18	36	19	25	12	25	24	17	25	16	11		11		16	13		11	13		
LOC	CHUX	9										10	7			14		18	25														
LOC	OSI	34		13		21	20		27	12	29	28	23	19	24	29	15	24	7		16			9					8				
LOC	PFCB	22	9	12	13	16	15	23		17	12	17		22	8	13	9	30	31	31	14	13	17	46	13				11	31			
LOC	RARE					7		7							7																		
LOC	RUBY	10	14	6	21	13			32	29		9		6	11	9	11		19	9	11		8		8			7			14		
LOC	TXRH	7												6												7							

Figure 20-7: Location and Construction over the Industry Cycle



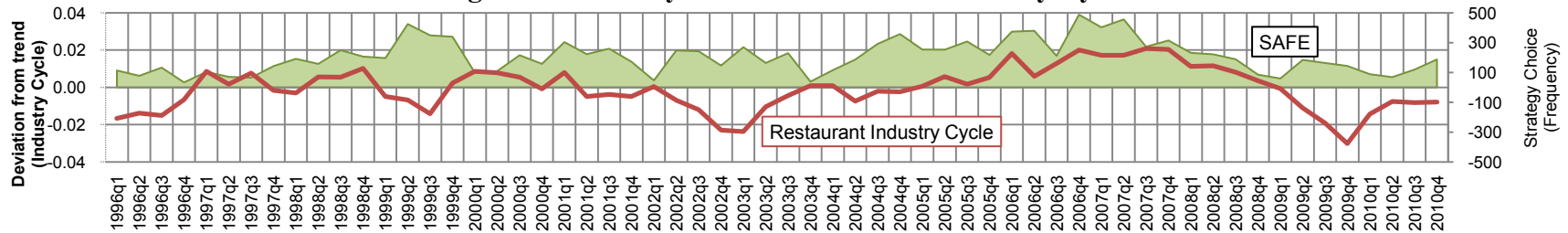
- Safety and Health:** It was obvious that safety and health-related strategies have been more frequently chosen by casual dining firms since 2004Q1. During an expansion period between 2004Q1 and 2007Q4, the frequency of occurrence of Safety and Health strategy choice was high. Firms did not give up this strategy choice during recessions.

Table 12-8: Longitudinal Mapping of Safety and Health by Firm

SC	Firms	1996q1	1996q2	1996q3	1996q4	1997q1	1997q2	1997q3	1997q4	1998q1	1998q2	1998q3	1998q4	1999q1	1999q2	1999q3	1999q4	2000q1	2000q2	2000q3	2000q4	2001q1	2001q2	2001q3	2001q4	2002q1	2002q2	2002q3	2002q4	2003q1	2003q2		
SAFE	APPB	31	15	52			12	10	21	19	16	30	26	24	49	39	30	9	19	12	39	34	30	49	22		49	21	33	36	36		
SAFE	EAT	12	29	10	20	22	16	9	33	95	49	67	41	28	84	43	44	25	21	13	21	32	34	29	11	27	39	21	24	37	13		
SAFE	CAKE	8		7				7	8	15	12	47	20	21	38		42	7	19	39	10	33	20	30	33		11		9	20	19		
SAFE	DRI	30	17	36	14	60	31	25	35	41	30	36	46	32	86	98	85	17	7	126	40	33	32	44	29		89	78	45	87	55		
SAFE	CHUX								6		9		17	14	32	25	21				7	66	21	35			8	76	9	18			
SAFE	OSI	18		28					21	13	17	70	26	31	44	66	29	20	21	16	8	33	24	27	45	6	16	41	16	28	31		
SAFE	PFCB													15	23	26	25	14	12	10	12	26	26	24	15	7	26			23			
SAFE	RARE					11			12		11		11	14	32	26	37				10	20	18	13	17					9			
SAFE	RUBY	15	17			11	12	15	7	9	14		20	18	37	26	27	7	11		11	27	18	9		7	10	6	11	12	10		
SAFE	TXRH																																

SC	Firms	2003q3	2003q4	2004q1	2004q2	2004q3	2004q4	2005q1	2005q2	2005q3	2005q4	2006q1	2006q2	2006q3	2006q4	2007q1	2007q2	2007q3	2007q4	2008q1	2008q2	2008q3	2008q4	2009q1	2009q2	2009q3	2009q4	2010q1	2010q2	2010q3	2010q4	
SAFE	APPB	39	12	15	42	16	109	51	42	93	18	75	61	61	95	126	184	46	145	124	31	38	8	7	21	46	13	23	36	9	11	
SAFE	EAT	31		7	6	9	48	65	25	58	25	65	90	12	33	53	27	39	17	19	42	30	12	8	86	20	48	23	9	25	12	
SAFE	CAKE	20	8	9	14	76	40	23	37	8	20	33	26	21	81	9	78	30	15	13	38	11	14	11	20	14	7	6	11	36		
SAFE	DRI	78	19	23	24	75	24	50	65	98	42	82	64	29	54	101	68	78	51	19	47	82	36	21	45	54	61	43		75	59	
SAFE	CHUX						18	7			6	9	12		30	28	27	20	20	8	6			6						12		
SAFE	OSI	18		14	7	34	54	19	27	26	20	32	53	46	17	52	43	28	13	11	30	9		13		23	7					
SAFE	PFCB	20			6	19		19		8	10	35	11	18	19		29	8	15	14		7									9	
SAFE	RARE				6				8		11	10	38		17			16	19		9											
SAFE	RUBY	24		48	82	63	83	9	42	17	66	33	25	25	130	34		8	20	24	19	12	16					6		61		
SAFE	TXRH														12			20								7	7	8				

Figure 20-8: Safety and Health over the Industry Cycle



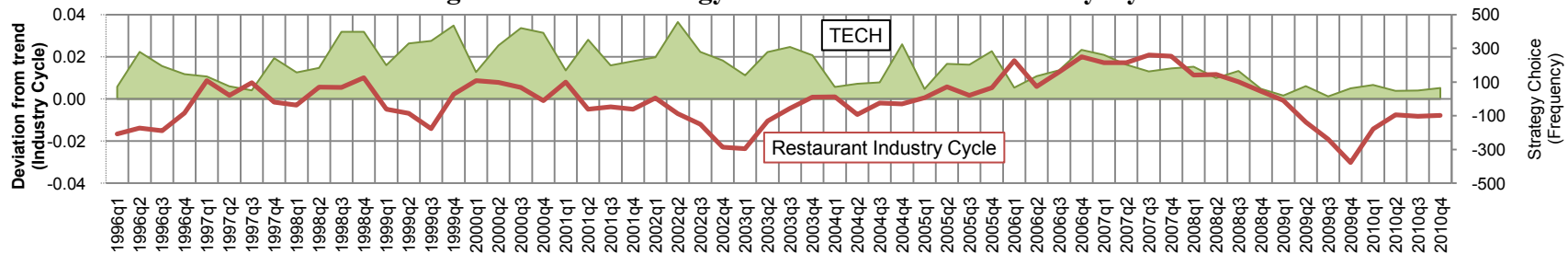
- Technology Innovation:** Large investments in technology seem to have been made between 1998Q3 and 2003Q4. Ongoing maintenance and the adoption of new technology has been made over time regardless of the phase of the industry cycle. Brinker and Darden were the first movers in terms of the use of Technology. They reduced their emphasis on Technology, while Ruby Tuesday's business strategy had a stronger technology development emphasis than before.

Table 12-9: Longitudinal Mapping of Technology Innovation by Firm

SC	Firms	1996q1	1996q2	1996q3	1996q4	1997q1	1997q2	1997q3	1997q4	1998q1	1998q2	1998q3	1998q4	1999q1	1999q2	1999q3	1999q4	2000q1	2000q2	2000q3	2000q4	2001q1	2001q2	2001q3	2001q4	2002q1	2002q2	2002q3	2002q4	2003q1	2003q2		
TECH	APPB		64	49			8		53	54	19	34	66	33	40	60	21	18	64	59	102	18	93	36	20	25	99	48	35	21	50		
TECH	EAT	12	89		28	71	25	21	63	45	64	85	72	68	116	42	237	57	28	36	44	10	28	24	11	101	40	35	42	20	13		
TECH	CAKE		49						21		8	77	46		9	15	9	10	45	104	16	18	91	15	44	7	34		23	17	45		
TECH	DRI	50	16	80	112	39	28	30	105	50	59	91	156	61	84	101	143	28	53	156	100	28	39	69	53	16	130	143	72	64	84		
TECH	CHUX											7	6		48	8	9		6	62	70	22	8	6	11	14	20	8					
TECH	OSI	10	6	37	7		8				12	104	38	11		83	15	15	84	10	7	7	32	24	45	30	37	23	17	11	20		
TECH	PFCB													11		9	7	15	36	28	18	6	16	16		24	66	10	9				
TECH	RARE					6					8				11	9		6		7	34				36	12	12					10	
TECH	RUBY		55	29		17	6			8	14			16	21	17	14	10	7	14	9	12	30	7	9	21	24		22	7	45		
TECH	TXRH																																11

SC	Firms	2003q3	2003q4	2004q1	2004q2	2004q3	2004q4	2005q1	2005q2	2005q3	2005q4	2006q1	2006q2	2006q3	2006q4	2007q1	2007q2	2007q3	2007q4	2008q1	2008q2	2008q3	2008q4	2009q1	2009q2	2009q3	2009q4	2010q1	2010q2	2010q3	2010q4	
TECH	APPB	36	91	18	58	7	67	14	58	31	28	27	35	44	41	51	70	39	59	31	51	57	14	8	8	7	24	34	8	13		
TECH	EAT	15		20			6	9	16	29	13	7	17	10	26	84	24		6	37	16	15	6	12	18		19	50	12	16		
TECH	CAKE	35			9	11	53		10			8	17	40	28	11	6	19	9	14	7	7		8	8		9	14		6		
TECH	DRI	143	89	16		22	125	12	69	75	66	19	29	37	39	33	31	9	63	16	45	23		14		11	24		22	20		
TECH	CHUX						46	12				6		28		7	13		6											8		
TECH	OSI	28				10	8		14		71	8	40	10	17	49	44	28	9	10						9						
TECH	PFCB	30				8		12	6	7	10		8	17		12	6	11	9		8											
TECH	RARE					23			12	14	83		19	51						17												
TECH	RUBY	21	79	17	16	17	19		17	39	12	6		25	32	16	22	28	54	17		34	10		20						10	
TECH	TXRH				7				6	8								12	14	19				8								

Figure 20-9: Technology Innovation over the Industry Cycle

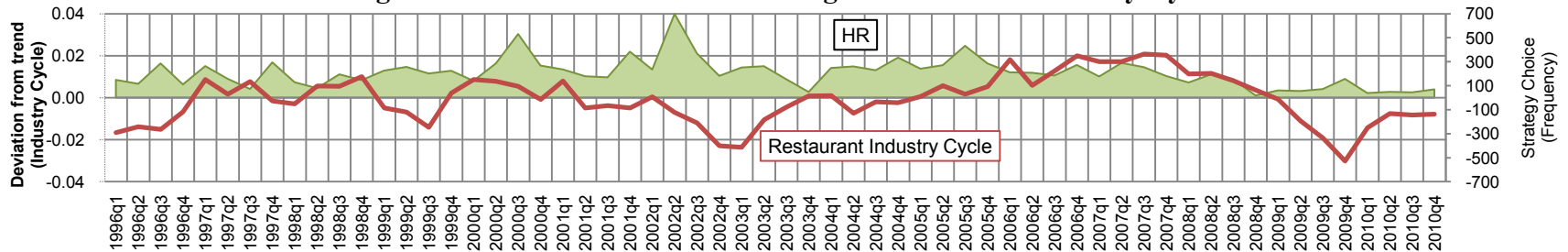


- *Human Resource Management:* Applebee's gives more weight to Human Resource Management than other competitors. Human resource management was focused on more by firms, especially Applebee's, during such downturn periods as contractions or recessions before 2002Q4. Since then the emphasis on human resource management has stayed relatively constant.

Table 12-10: Longitudinal Mapping of Human Resource Management by Firm

SC	Firms	1996q1	1996q2	1996q3	1996q4	1997q1	1997q2	1997q3	1997q4	1998q1	1998q2	1998q3	1998q4	1999q1	1999q2	1999q3	1999q4	2000q1	2000q2	2000q3	2000q4	2001q1	2001q2	2001q3	2001q4	2002q1	2002q2	2002q3	2002q4	2003q1	2003q2	
HR	APPB	48	10	141	11	39	79	22	42	18	10	28	33	39	27	63	28	31	50	129	52	13	14	26	36	8	186	100	44	16	47	
HR	EAT	10	54	14	31	87	22		81	26	52	61	22	47	72	29	81	36	16	19	46	13	40	29	45	84	49	102	14	33	80	
HR	CAKE	7			9			11		9		29	47	10	8	9	14	8	41	133	27	74	30	8	80	7	51	14	30	25	41	
HR	DRI	20	20	25	28	64	18	18	36	52	9	42	21	33	39	42	75	27	21	177	75	27	25	52	30	24	227	50	24	144	56	
HR	CHUX		20			7					8				40						8	22	9	8		32	41	43	10	7		
HR	OSI	10		97	17	7	13		124	23		34		74	25	21	10	26	63	47	11	86	36	14	103	11	48	37	34	12	16	
HR	PFCB													16	35	16	10	12	33	18	18		9	9	18	40	76	15		14		
HR	RARE					41	10						6		10	7	6				14			9	7	61	6		25			
HR	RUBY	53	11	8	14	18	15	21	11				17	6		14			60	7	16		15	9	10	28	14	8			6	
HR	TXRH																															16
SC	Firms	2003q3	2003q4	2004q1	2004q2	2004q3	2004q4	2005q1	2005q2	2005q3	2005q4	2006q1	2006q2	2006q3	2006q4	2007q1	2007q2	2007q3	2007q4	2008q1	2008q2	2008q3	2008q4	2009q1	2009q2	2009q3	2009q4	2010q1	2010q2	2010q3	2010q4	
HR	APPB	38	8	90	64	25	133	65	64	130	66	39	34	25	52	52	39	42	94	13	55	13			10	9	12	10	10		12	
HR	EAT	13		32		7	36	31	41	64	54	43	38	55	42	58	30	41	18	17	25	44			34	10	29	10	10			
HR	CAKE	14		7	32	29	64	28	28	18	8	32	15	16	31		39	15	9		41	16			10	32	9	10		6		
HR	DRI	50	39	27	33	31	36	24	42	131	72	27	43	47	67	40	38	70	16	30	36	48	18	41	11	17	25	19	11	31	26	
HR	CHUX			17			13	10	20	9	11		12		12	6	31	14	8	25	8			19			6		7			
HR	OSI	16		28		80	40	16	40	20	29	39	53	29	20	9	41	17		13	28	26					28			13		
HR	PFCB	15		7		11		17		28		21			6		15	9				6									6	
HR	RARE			6	50	25		26	18	6	30	10	12		24			38	14	20							7					
HR	RUBY	7		33	81	20	12	24	17	26	8				12	9	11	27	8		8						17				19	
HR	TXRH										7					9		29		21						25						

Figure 20-10: Human Resource Management over the Industry Cycle

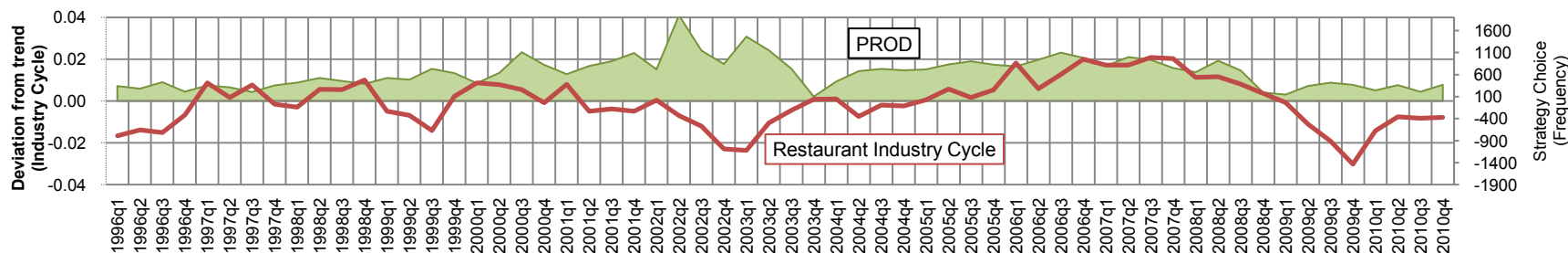


- *Product Development*: Product Development is a very common strategy choice among casual dining firms. This strategy choice was very popular over all phases of the industry cycle, but during a recovery, firms did not emphasize it as much as they did during other phases of the industry cycle.

Table 12-11: Longitudinal Mapping of Product Development by Firm

SC	Firms	1996q1	1996q2	1996q3	1996q4	1997q1	1997q2	1997q3	1997q4	1998q1	1998q2	1998q3	1998q4	1999q1	1999q2	1999q3	1999q4	2000q1	2000q2	2000q3	2000q4	2001q1	2001q2	2001q3	2001q4	2002q1	2002q2	2002q3	2002q4	2003q1	2003q2	
PROD	APPB	36	52	174	30	86	131	52	44	82	101	92	105	82	84	103	98	101	119	161	196	87	109	174	140	81	344	294	167	172	289	
PROD	EAT	83	97	43	60	61	97	35	80	126	106	98	75	92	47	150	89	72	144	136	158	85	95	139	90	173	271	262	153	248	156	
PROD	CAKE	25	21	25	22	38	15	32	17	42	49	45	36	51	67	61	85	49	58	212	46	82	111	116	207	124	243	62	80	165	58	
PROD	DRI	83	35	79	63	55	16	30	79	27	71	149	63	78	69	97	65	58	89	249	140	77	105	88	115	73	491	150	163	382	196	
PROD	CHUX	39	9	14		10		7	9	11	18	6	32	25	28	41	91		7	41	62	71	96	119	47	46	87	133	52	106	55	
PROD	OSI	62	29	84	30	50	18	26	45	43	122	52	31	66	70	118	86	58	133	80	53	81	104	109	281	83	184	114	79	140	156	
PROD	PFCB		8			9		7	20					45	29	72	58	37	56	118	77	27	94	91	71	47	112	57	48	167	48	
PROD	RARE					31	12		29		23		32	38	38	44	17	16		49	40	41	54	24	96	29	21		24	30	33	
PROD	RUBY	10	27	7	6	11	20	14	12	85	31	11	13	44	52	43	43	13	30	22	47	57	25	41	40	60	169	47	72	42	88	
PROD	TXRH								18											38							21	23		8	70	
SC	Firms	2003q3	2003q4	2004q1	2004q2	2004q3	2004q4	2005q1	2005q2	2005q3	2005q4	2006q1	2006q2	2006q3	2006q4	2007q1	2007q2	2007q3	2007q4	2008q1	2008q2	2008q3	2008q4	2009q1	2009q2	2009q3	2009q4	2010q1	2010q2	2010q3	2010q4	
PROD	APPB	83	22	110	161	92	171	166	161	166	110	112	272	155	207	187	232	220	208	189	188	153	42	28	80	108	66	85	99	11	76	
PROD	EAT	66		30	51	56	42	146	99	172	114	97	159	72	181	133	91	59	81	85	109	86	12	24	85	60	77	24	47	18	28	
PROD	CAKE	88		38	71	124	112	32	117	60	114	68	89	188	91	46	105	93	79	72	144	118	28	21	19	36	17	26	44	26	25	
PROD	DRI	150	47	107	85	85	75	98	145	259	166	124	97	207	177	153	170	242	132	71	172	148	63	19	72	80	64	56	12	85	92	
PROD	CHUX	38			32	20	20	64	28	10	29	30	63	65	26	28	57	64	53	37	49	31		6		9	9	26				
PROD	OSI	133		47	48	124	69	49	105	92	141	147	103	157	108	109	148	104	23	43	92	43	6	9	14	42	16		39	26	28	
PROD	PFCB	80		31	50	43	97	89	46	69	27	99	30	127	46	38	108	82	67	85	38	81	15	10	22	38	30	14	42	29	63	
PROD	RARE	27		8	22	19		39	14	7	32	22	19	8	18	18	9	35	28		47				6	12						
PROD	RUBY	38	30	70	129	164	98	17	105	56	45	71	87	110	114	59	75	27	76	71	68	32	26	33	20	31	51	26	31		55	
PROD	TXRH	30			27		12	16	9	9	45	14	16	7	10	21		6			6				16	7	35		19	13		

Figure 20-11: Product Development over the Industry Cycle



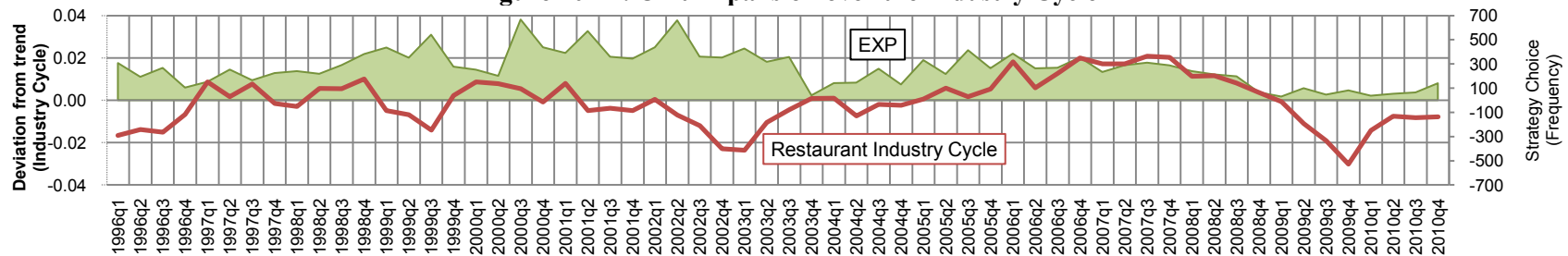
- Unit Expansion:** Applebee's is the most aggressive player in terms of unit expansion for the period time investigated. When the cycle entered its recovery phase, the frequency of Unit Expansion declined. No significant relation with the cycle was observed. Temporal patterns of this strategy choice indicate that since 2004Q4, casual dining firms slowed their unit number growth although the industry experienced upturns.

Table 12-12: Longitudinal Mapping of Unit Expansion by Firm

SC	Firms	1996q1	1996q2	1996q3	1996q4	1997q1	1997q2	1997q3	1997q4	1998q1	1998q2	1998q3	1998q4	1999q1	1999q2	1999q3	1999q4	2000q1	2000q2	2000q3	2000q4	2001q1	2001q2	2001q3	2001q4	2002q1	2002q2	2002q3	2002q4	2003q1	2003q2	
EXP	APPB	59	44	125	22	43	62	35	40	83	39	71	78	62	60	63	34	54	39	102	139	39	65	55	77	72	108	84	76	59	74	
EXP	EAT	68	64	42	41	40	80	27	26	52	22	72	68	64	27	88	49	45	41	87	97	58	83	52	21	92	116	103	47	39	51	
EXP	CAKE	39	21	10	13	9	10	27	14	35	37	42	42	46	43	36	34	25	14	101	18	46	63	36	50	54	68	15	24	31	14	
EXP	DRI	60	7	24	19	25	25	16	42	20	26	53	48	47	41	49	24	36	34	107	68	52	74	49	49	31	95	54	52	111	51	
EXP	CHUX	11				11	6		7	25	7	31	34	35	45	25	11			43	16	50	65	41	10	29	64	38	29	16	12	
EXP	OSI	61	26	57	9	15	18	29	23	37	25	45	42	48	56	67	30	27	35	50	25	37	62	47	74	60	77	31	43	82	51	
EXP	PFCB		10						16				7	38	24	83	32	24	19	81	20	27	84	43	38	28	25	19	31	36	17	
EXP	RARE		7			9	30	9	27		25		41	51	26	61	22	13		49	18	34	61	15	9	28	28		17	31	40	
EXP	RUBY	9	14	9			22	16	16	13	19		24	45	39	49	27	17		19	12	36	47	14	21	15	43	79		33	14	7
EXP	TXRH							6	13											35								16			8	

SC	Firms	2003q3	2003q4	2004q1	2004q2	2004q3	2004q4	2005q1	2005q2	2005q3	2005q4	2006q1	2006q2	2006q3	2006q4	2007q1	2007q2	2007q3	2007q4	2008q1	2008q2	2008q3	2008q4	2009q1	2009q2	2009q3	2009q4	2010q1	2010q2	2010q3	2010q4	
EXP	APPB	40	16	45	40	20	48	48	40	88	51	53	91	29	88	54	82	70	81	50	47	55	27	6	15	27	20	21	17	33		
EXP	EAT	28		17	8	47	18	49	32	82	26	47	58	33	61	44	49	37	40	33	21	35		12	46	11	21	7	15	14	20	
EXP	CAKE	59		18	24	38	12	19	22	17	17	45	7	44	31	15	31	22	31	36	29	27	14		13							
EXP	DRI	54	7	21	10	31	16	26	39	85	47	54	32	83	87	43	37	65	45	27	44	41	18		13	8	21	9	7	31	26	
EXP	CHUX	23			8	13		26	13	11	11	35	29		6	13	6	34	11	16	9											
EXP	OSI	68		20	7	35	12	45	34	42	45	55	36	40	36	26	39	34	18	10	26	8		6			9				7	
EXP	PFCB	41		12	17	24	12	61	15	40	20	44	10	26	17	12	25	21	34	29	9	21	6						9		9	27
EXP	RARE					14		40				14	18		15			18	19		11											
EXP	RUBY	22	17	8	24	38	12		21	48	21	26		13	12	26	20	9	9	39	17	10		6	6		10		14		16	
EXP	TXRH	22			7			17				12	8											6	6							

Figure 20-12: Unit Expansion over the Industry Cycle



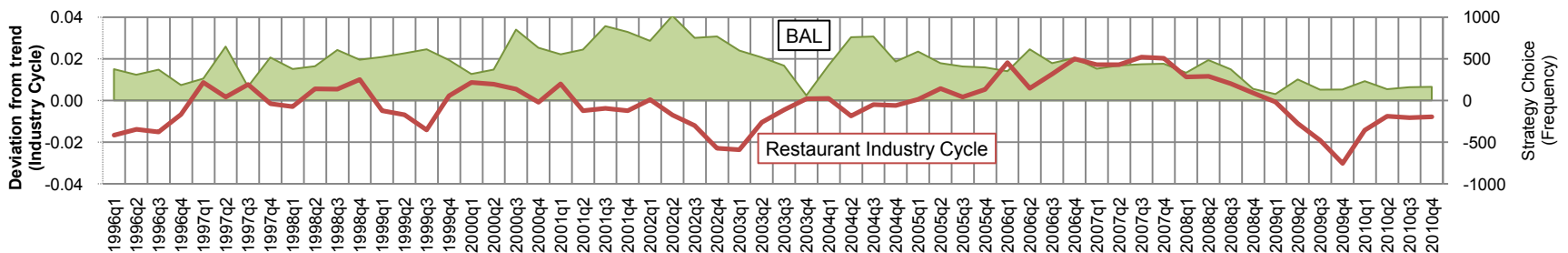
- *Balance between Cost and Quality*: Overall, like Unit Expansion, Product Development, and Pricing and Promotion, a high frequency of strategic decision concerning the Balance between Cost and Quality occurred in most casual dining firms. Firms slightly increased their emphasis to determine how to balance between costs and quality during contractions, recessions and troughs.

Table 12-13: Longitudinal Mapping of Balance between Cost and Quality by Firm

SC	Firms	1996q1	1996q2	1996q3	1996q4	1997q1	1997q2	1997q3	1997q4	1998q1	1998q2	1998q3	1998q4	1999q1	1999q2	1999q3	1999q4	2000q1	2000q2	2000q3	2000q4	2001q1	2001q2	2001q3	2001q4	2002q1	2002q2	2002q3	2002q4	2003q1	2003q2	
BAL	APPB	79	56	177	18	66	192	28	95	94	68	117	129	75	75	92	64	66	83	168	177	71	113	198	123	112	170	193	169	96	126	
BAL	EAT	103	111	52	97	63	199	20	104	105	82	192	112	79	102	102	112	86	68	107	138	73	85	98	100	95	150	187	110	72	69	
BAL	CAKE	26	18	9	11	10		30	16	23	30	65	55	38	62	32	41	20	39	115	16	68	49	86	104	47	95	40	64	47	39	
BAL	DRI	84	19	58	35	50	104	26	130	73	95	116	64	93	88	105	54	40	27	244	116	77	99	140	147	79	182	75	119	177	69	
BAL	CHUX	15	8			12	9	10	18		25		36	51	47	39	58	6	8	24	36	87	86	93	73	77	97	101	63	46	12	
BAL	OSI	48	58	72		22	34	35	17	50	33	61	114	51	82	75	104	65	56	71	66	53	88	75	130	153	89	102	104	84	81	74
BAL	PFCB								23					32	27	61	40	21	45	81	34	30	49	67	33	76	68	41	58	44	36	
BAL	RARE		7			12	61	7	32				22	34	38	45	14	11		20	29	24	39	41	30	64	65		43	21	73	
BAL	RUBY	19	30			14	45	20	23	48	26		18	36	50	32	35	10	28	11	32	34	14	29	57	74	73		56	7	9	
BAL	TXRH							8	23											12				8			12	8		6	8	

SC	Firms	2003q3	2003q4	2004q1	2004q2	2004q3	2004q4	2005q1	2005q2	2005q3	2005q4	2006q1	2006q2	2006q3	2006q4	2007q1	2007q2	2007q3	2007q4	2008q1	2008q2	2008q3	2008q4	2009q1	2009q2	2009q3	2009q4	2010q1	2010q2	2010q3	2010q4
BAL	APPB	52	19	68	117	89	112	107	117	86	91	56	178	82	151	122	143	98	159	71	85	99	47	9	40	30	53	35		54	
BAL	EAT	65		45	108	84	45	123	47	75	68	61	123	72	86	80	67	59	56	62	60	88	31	23	59	28	36	8	37	32	24
BAL	CAKE	39	6	40	44	95	81	33	39	20	18	23	36	44	35	14	30	35	36	14	58	27	19		17	11	13	6	21		
BAL	DRI	75	34	72	116	102	87	60	85	93	79	51	73	103	94	60	45	108	61	77	126	101	41	19	51	32	44	163	9	102	48
BAL	CHUX	30		34	46	86	21	51	19	14	28	44	66	24	33	25	23	25	27	6	12	6		10	15				6		
BAL	OSI	67		50	110	113	35	67	82	52	56	62	100	75	60	25	73	43		18	76	24		7	8	8	7		10	8	13
BAL	PFCB	41		36	75	72	47	58	10	18	12	22	15	27	7	7	21	33	25	29	22	18			24	7		8	10	12	
BAL	RARE	23		34	50	66		36	15		31	16	12		16			19	24	25	7				10						
BAL	RUBY	24		43	61	58	19	16	32	24	12	14	9	19	20	35	16	13	51	29	37	9		7	20			8		11	
BAL	TXRH				30		18	34		24					6	11										7			6		

Figure 20-13: Balance between Cost and Quality over the Industry Cycle



Comparing Mean of Strategy Choice between Different Phases of the Industry Cycle

The study analyses the relationship between strategy choices made by the casual dining industry and the restaurant industry cycle in two ways. First, as previously reported, the graphical presentation of the cycle and strategy choices was used for a preliminary investigation of the relationships. Next, using the panel data from ten major casual dining firms, one-way ANOVA was employed to confirm the findings from the descriptive analysis by determining whether significant differences in strategy choices exist between cycle phases.

To conduct one-way ANOVA, the researcher constructed company panel data sets from ten major firms within the casual dining industry: Applebee's/DineEquity, Brinker International, Cheesecake Factory, Darden Restaurants, O'Charley's, OSI Restaurant Partners, P.F. Chang's, Rare Hospitality, Ruby Tuesday, and Texas Roadhouse. Panel data refers to data that contains observations on multiple phenomena observed over multiple time periods for the same firms. To create groups for ANOVA analysis, the restaurant industry cycle data was coded into six phases (i.e. contraction, expansion, peak, recession, recovery, and trough). The number of cases for contraction, expansion, peak, recession, recovery, and trough are 150, 120, 30, 100, 160, and 40, respectively. By the definition of the industry cycle, the number of peaks and troughs cannot be similar to those of other cycle phases, so we should be cautious when making conclusions. In order to find an answer to the third proposition above, the researcher investigated the following hypotheses related to restaurant industry cycle variables and strategy choice variables.

H1a: There are no significant differences in the frequency of *Mergers and Acquisition Strategy Choice* (MA) between four phases of the restaurant industry cycle (i.e. contraction, expansion, peak, recession, recovery, and trough phase)

H1b: There are no significant differences in the frequency of *Service Development Strategy Choice* between four phases of the restaurant industry cycle.

H1c: There are no significant differences in the frequency of *Pricing and Promotion Strategy Choice* between four phases of the restaurant industry cycle.

H1d: There are no significant differences in the frequency of *Eco-friendly and Energy Efficiency Strategy Choice* between four phases of the restaurant industry cycle.

- H1e: There are no significant differences in the frequency of *Charity and Community Involvement Strategy Choice* between four phases of the restaurant industry cycle.
- H1f: There are no significant differences in the frequency of *Leadership and Communication with Stakeholders Strategy Choice* between four phases of the restaurant industry cycle.
- H1g: There are no significant differences in the frequency of *Location and Construction Strategy Choice* between four phases of the restaurant industry cycle.
- H1h: There are no significant differences in the frequency of *Safety and Health Strategy Choice* between four phases of the restaurant industry cycle.
- H1i: There are no significant differences in the frequency of *Technology Innovation Strategy Choice* between four phases of the restaurant industry cycle.
- H1j: There are no significant differences in the frequency of *Human Resource Management Strategy Choice* between four phases of the restaurant industry cycle.
- H1k: There are no significant differences in the frequency of *Product Development Strategy Choice* between four phases of the restaurant industry cycle.
- H1l: There are no significant differences in the frequency of *Unit Expansion Strategy Choice* between four phases of the restaurant industry cycle.
- H1m: There are no significant differences in the frequency of *Balance between Cost and Quality Strategy Choice* between four phases of the restaurant industry cycle.

The researcher compared differences in means of the frequency of a strategy choice (Dependent variable) across the phases of the industry cycle (Groups) using a one-way ANOVA. The major assumptions of one-way ANOVA are independent groups, the homogeneity of variance, and normal distribution. The Levene test indicated that the homogeneity assumption for MA, SERD, ECO, CHAR, LEAD, LOC, HR, PROD, EXP, and BAL was violated, so the Brown-Forsythe and Welch options were selected for these variables as alternative versions of the F statistic. They should be generally accurate when the homogeneity of variance is not true.

Table 13: ANOVA & Welch/Brown-Forsythe Test Results for Means of Strategy

Choices

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
PRPR	Between Groups	3211.650	5	642.330	1.865*	.098
	Within Groups	204527.069	594	344.322		
	Total	207738.718	599			
SAFE	Between Groups	6559.773	5	1311.955	2.191*	.054
	Within Groups	355608.700	594	598.668		
	Total	362168.473	599			
TECH	Between Groups	2157.640	5	431.528	.537	.749
	Within Groups	477771.358	594	804.329		
	Total	479928.998	599			

Welch/Brown-Forsythe Robust Tests of Equality of Means

		Statistic ^a	df1	df2	Sig.
MA	Welch	12.478**	5	150.083	.000
	Brown-Forsythe	7.381**	5	217.240	.000
SERD	Welch	2.456**	5	162.085	.036
	Brown-Forsythe	4.323**	5	222.889	.001
ECO	Welch	5.996**	5	159.538	.000
	Brown-Forsythe	12.579**	5	292.443	.000
CHAR	Welch	1.333	5	169.426	.253
	Brown-Forsythe	2.078*	5	415.854	.067
LEAD	Welch	1.570	5	170.174	.171
	Brown-Forsythe	1.545	5	429.925	.175
LOC	Welch	5.040**	5	154.899	.000
	Brown-Forsythe	4.401**	5	287.233	.001
HR	Welch	1.245	5	159.405	.291
	Brown-Forsythe	1.462	5	363.660	.202
PROD	Welch	3.699**	5	159.952	.003
	Brown-Forsythe	3.568**	5	305.946	.004
EXP	Welch	5.211**	5	158.487	.000
	Brown-Forsythe	4.413**	5	311.138	.001
BAL	Welch	4.213**	5	159.815	.001
	Brown-Forsythe	5.136**	5	369.944	.000

Note: a. Asymptotically F distributed. *. The mean difference is significant at the 0.10 level; **. The mean difference is significant at the 0.05 level. MA=mergers and acquisitions, SERD=Service development, PRPR=pricing and promotion, ECO=eco-friendly and energy efficient production, CHAR=community involvement, LEAD=leadership and communication with stakeholders, LOC=location and construction, SAFE=safety and health, TECH=technology innovation, HR=human resource management, PROD=product development, EXP=unit expansion, and BAL=balance between cost and quality.

Table 14: Pairwise Comparisons

Post Hoc Tests

Dependent Variable	Test	Cycle Phase (A)		Cycle Phase (B)	Mean Difference (A-B)	Sig.
MA	Games-Howell	contraction	>	recovery	7.804**	.000
		expansion	>	recovery	13.646**	.000
		peak	>	recovery	19.838**	.007
		recession	>	recovery	9.258**	.001
		recovery	<	trough	-10.138**	.011
SERD	Games-Howell	expansion	<	recession	-6.470*	.070
		recession	>	recovery	6.814*	.056
		recession	>	trough	6.745*	.076
PRPR	Tukey HSD	-		-	-	-
ECO	Games-Howell	contraction	<	recession	-12.570**	.000
		expansion	<	recession	-14.400**	.000
		peak	<	recession	-11.950**	.004
		recession	>	recovery	12.406**	.000
		recession	>	trough	10.575**	.018
LOC	Games-Howell	contraction	>	recovery	6.018**	.028
		peak	>	expansion	9.633*	.059
		peak	>	recovery	10.765**	.026
		recession	>	recovery	6.341**	.040
SAFE	Tukey HSD	expansion	>	recovery	8.285*	.058
PROD	Games-Howell	expansion	>	recovery	19.710**	.040
		recession	>	recovery	32.284**	.007
EXP	Games-Howell	contraction	>	recovery	9.927**	.007
		expansion	>	recovery	6.729*	.083
		peak	>	recovery	15.221**	.011
		recession	>	recovery	9.758**	.035
		recovery	<	trough	-14.138*	.068
BAL	Games-Howell	contraction	<	recession	-16.820*	.094
		expansion	<	recession	-23.338**	.003
		recession	>	recovery	25.643**	.000

Note: *. The mean difference is significant at the 0.10 level; **. The mean difference is significant at the 0.05 level. MA=mergers and acquisitions, SERD=Service development, PRPR=pricing and promotion, ECO=eco-friendly and energy efficient production, CHAR=community involvement, LEAD=leadership and communication with stakeholders, LOC=location and construction, SAFE=safety and health, TECH=technology innovation, HR=human resource management, PROD=product development, EXP=unit expansion, and BAL=balance between cost and quality.

The result of the ANOVA and the Welch/Brown-Forsythe Tests (Table 14) showed significant differences in PRPR, SAFE, MA, SERD, ECO, LOC, SAFE, PROD, EXP, BAL between industry cycle stages, while showing no difference in TECH, CHAR, LEAD, and HR. To determine where the differences between cycle phases lie, Tukey and Games-Howell tests were used as a post hoc test that uses pairwise comparisons of means. As previously mentioned, ten strategy choice variables did not meet the homogeneity of variance. The Games-Howell post hoc test does not assume population variances are equal or sample sizes are equal, therefore it should be a good alternative for the variables. The results of Post Hoc Tests presented in Table 13 revealed the followings:

- During a recovery period, Merger and Acquisition activities in the casual dining industry were significantly lower than during all other phases of the industry cycle (i.e. contraction, expansion, peak, recession, recovery, and trough).
- During a recession, firms emphasized Service Development more than during an expansion, recovery, or trough.
- Pricing and promotion were not significantly different over the industry cycle.
- Eco-friendly and Energy Efficient Production were emphasized more during a recession than during all other phases of the industry cycle.
- During recoveries, strategic activities related to seeking better Locations and Construction methods occurred at a lower frequency than during a peak, contraction, or recession. The frequency of the strategy choice was significantly higher during peaks than during expansions.
- The frequency of Safety and Health-related strategy choice was higher during an expansion than during a recovery.
- Firms emphasized Product Development more during expansions and recessions than during recoveries.
- Unit Expansion strategy choice was made during all phases of the industry cycle but recovery.
- Balance between Cost and Quality was called attention to more often during recessions than during contractions, expansions, or recoveries.

The results of one-way ANOVA were similar to the previous findings using visual tools of descriptive analysis. Based on two different approaches used to determine whether casual dining firms change their strategy choices according to cyclical change in the industry environment, casual dining firm's responses to a change in the phase of the industry cycle are summarized in Table 15.

Table 15: Summary of Descriptive and ANOVA Analysis for Firm's Emphasis on Strategy Choice over the Industry Cycle

	Trough		Recovery		Expansion		Peak		Contraction		Recession	
	Descriptive	ANOVA	Descriptive	ANOVA	Descriptive	ANOVA	Descriptive	ANOVA	Descriptive	ANOVA	Descriptive	ANOVA
MA	high	high	low		high		high	high		high		high
SERD		low	low		low				High (late contraction)		High (early recession)	high
PRPR												
ECO	low	low	low	low	low	low	low	low	low	low	high	high
CHAR												high
LEAD												
LOC			low		low		high		high			high
SAFE			low		high	high						
TECH												
HR									High before 2002		High before 2002	
PROD			low		high							high
EXP	high	high	low	low	high	high	high	high	high	high	high	high
BAL	high								high		high	

Note: "high" and "low" in bold means an agreement between two different methods of analysis.

MA=mergers and acquisitions, SERD=Service development, PRPR=pricing and promotion, ECO=eco-friendly and energy efficient production, CHAR=community involvement, LEAD=leadership and communication with stakeholders, LOC=location and construction, SAFE=safety and health, TECH=technology innovation, HR=human resource management, PROD=product development, EXP=unit expansion, and BAL=balance between cost and quality.

Frequencies and mean differences in strategy choices variables between contractions, expansions, peaks, recessions, recoveries, and troughs indicate that casual dining firms emphasized or adopted different strategy choices over the industry cycle, resulting in different sets of strategy choices. However, Pricing and Promotion, Community Involvement, Leadership and Communication with Stakeholders, and Technology Innovation were utilized by firms regardless of changes in the industry cycle.

Proposition Four: *The timing of strategy choices over the industry cycle determines their superior investment returns; the effects of strategy choice on firm performance vary with each phase of the industry cycle*

For this proposition, both the panel data for ten major casual dining firms and the firm's separate time series were utilized to investigate the effect of a strategy choice on firm performance over the industry cycle. The panel data is unbalanced, as the number of time periods available vary due to privatization, acquisitions, and initial public opening year for OSI Restaurant Partners, Rare Hospitality, and Texas Roadhouse. There were six hundred data points in a full set of data and there were 150, 120, 30, 100, 160, and 40 data points, for contraction, expansion, peak, recession, recovery, and trough, respectively

Examining the fit between strategy choice and its outcome gives rise to the possible existence of a time lag. Time is critical for better understanding the cause and effect relationships between a strategic choice investment and its realization of desired outcome. Therefore, prior to examining the relationship among three constructs (Industry cycle, strategy choice, and firm performance), the time lag between strategy choice and firm performance was investigated by using the cross correlation function. The cross correlation function is a means to check correlations/co-movements between time series X and Y at different times. In this study, X is the frequency of occurrence of a firm's strategy choice (i.e. strategy choice) and Y is the firm's operational cash flow per invested capital (i.e. performance measure). If X (t) is related to Y (t + L), the specified time lag, L, needs to be considered in examining the relationship between two variables. In cases when the two variables at different times are not statistically independent, large cross correlations between X (t) and Y(t+L) will result. We checked 14 lags with a full panel data series. As presented in Table 13, SERD, ECO, CHAR, LEAD, LOC, SAFE, HR, PROD, EXP, and BAL strategy choices were related to OCF/IC of casual dining firms by one quarter lag, while they were also related to OCF/IC without a lag. The results of cross correlations mean that a firm's operating cash flow per invested capital at time t is related to strategy choices made at time t-1. Service Development and Technology Innovation strategy choices were concurrently related to OCF/IC, while MA and PRPR showed no significant correlation with OCF/IC at any time (Table 16). This study used the lagged strategy choice

variables to prepare scatterplots showing the relationships between strategy choices and performance based on the phases of the industry cycle. Additionally, the cross correlations by cycle phase could not be run because the cross correlation function requires time series data that cannot be made by grouping the data set by cycle phase.

**Table 16: Cross-Correlations
Between Strategy Choice Variables and Operating Cash Flows per Invested Capital**

Strategy Choice Variable		Lag	Correlation with OCF
Merger and Acquisition	MA	0	.040
		1	.075
Service Development	SERD	0	.166*
		1	.165*
Pricing and Promotion	PRPR	0	.028
		1	.039
Eco-friendly and Energy Efficient Production	ECO	0	.145*
		1	.158*
Community Involvement	CHAR	0	.092*
		1	.105*
Leadership and Communication	LEAD	0	.163*
		1	.168*
Location and Construction	LOC	0	.155*
		1	.161*
Safety and Health	SAFE	0	.067
		1	.115*
Technology Innovation	TECH	0	.097*
		1	.095*
Human Resource Management	HR	0	.121*
		1	.169*
Product Development	PROD	0	.163*
		1	.189*
Unit Expansion	EXP	0	.107*
		1	.130*
		2	.109*
Balance between Cost and Quality	BAL	0	.116*
		1	.136*

Note: *: Significant at 0.05; the results of other insignificant lags are not reported

For Proposition Four, case analyses were also conducted by investigating the strategy choices of ten major casual dining firms: Applebee's/DineEquity, Brinker International, Cheesecake Factory, Darden Restaurants, O'Charley's, Outback steakhouse/ OSI Restaurant

Partners, P.F. Chang's, Rare Hospitality, Ruby Tuesday, and Texas Roadhouse. The study traced the firms' historical strategy choices and performance. To collect textual and financial data for the individual firms and to prepare visual mapping of the data, the following steps were made by firm by quarter:

- Collect textual data related to a firm by quarter.
- Exclude texts that are irrelevant to the firm's strategy choice (e.g. stock price information, rankings (e.g. Top 100 restaurants, sales/earnings announcements, executive change announcements, career information, conference information, restaurant stock index performances, IPO announcements, recipes, editorials).
- Count the number of key words that were found in the content analysis.
- Collect financial data and standardize firm performance data (i.e. operational cash flow per invested capital).
- Recode the restaurant industry cycle into six phases: contraction, expansion, peak, recession, recovery, and trough.
- Lag eleven strategy choice variables by one quarter: MA, PRPR, ECO, CHAR, LEAD, LOC, SAFE, HR, PROD, EXP, and BAL based on the cross correlation results.
- Prepare graphs/scatterplots that visualize the relationships between changes in strategy choices and changes in firm performance by dividing data by the phase of the industry cycle.

Two-way ANOVA or other statistics could not be run to investigate the relationships among three variables (i.e. cycle phase, performance, strategy choice), since the sample sizes of recoded performance by cycle phase become too small to achieve statistically meaningful results. Longitudinal mapping of strategy choices and graphing three factors- Industry cycle, strategy choice, and performance were previously proposed in Chapter Three. However, graphing the degree of emphasis on a particular strategy, firm performance at different times (i.e. time lag), and industry cycles together made the analysis of their relationships too complex, resulting in the researcher not being able to achieve the purpose of the study. Instead, scatterplots by cycle phase were used as an alternative analytical tool to explore relationships. Scatterplots are useful to see if there is a relationship between two variables. In this study, scatterplots between strategy choice and firm performance were produced for six different phases of the restaurant industry cycle.

Comparing a scatterplot during a cycle phase (e.g. recession) with scatterplots during other phases allows us to see the possible effects of the industry cycle on the relationship between strategy choice and firm performance. The plots are presented in Appendix 2.

The effects of strategy choices were different according to changes in the phases of the industry cycle. After a great deal of observation of the plots in Appendix 2, the relationships were summarized in Table 17 and findings are as follows:

Overall Findings

- The strategy choices that casual dining firms made did not always prove to be effective during different phases of the industry cycle. For example, the effect of a strategy choice on a firm's performance differs during different phases of the industry cycle. Applebee's Location and Construction strategy choices positively related to their operational cash flow per invested capital (OCF/IC) during recessions, recoveries, troughs, and contractions, but the same choice proved ineffective during expansions and even negatively related to its OCF/IC during peaks. P.F. Chang's Technology Innovation strategy choice positively related to its OCF/IC during peaks, but negatively related to OCF/IC during contractions and troughs. During expansions, recessions, and recoveries, P.F. Chang's Technology Innovation strategy choice produced no changes in the firm's performance (in terms of its OCF/IC). Darden's strategy choice concerning Leadership and Communication with Stakeholders was more effective during expansions and contractions than during any other phases of the industry cycle. Many other cases appear in Figure 17.
- In general, during contractions, recessions, troughs, and recoveries, firms saw more positive relationships between operational cash flow per invested capital (OCF/IC) and strategy choices, while many strategy choices had no relationship with OCF/IC or failed to generate greater OCF/IC during expansions and peaks.
- In some cases, the relationship among the industry cycle, strategy choice, and firm performance were mixed across casual dining firms.

Results by Cycle Phase

- Trough phase of the industry cycle
During troughs, thirty percent of all casual dining firms included in this study had exhibited positive relationships between changes in their OCF/IC and their two strategy choices: CHAR and LEAD. Twenty percent of all firms showed positive relationships between their change in OCF/IC and the following three strategy choices: LOC, SAFE, and EXP. Ten percent of all firms were found to have positive relationships between their change in OCF/IC and SERD, PRPR, TECH, HR, PROD, and BAL. Negative relationships between changes in OCF/IC and PRPR, CHAR, TECH, PROD, EXP, and BAL were also observed in ten percent of all firms during the trough phase.
- Recovery phase of the industry cycle
During recoveries, forty percent of all firms studied saw positive relationships between their changes in OCF/IC and their two strategy choices: ECO and BAL. The SERD, PRPR, LOC, and EXP strategies positively related to changes in OCF/IC in twenty percent of all firms. LEAD, TECH, and HR positively related to the changes in OCF/IC in ten percent of all firms. Finally, ten percent of all firms in this study experienced a decrease in OCF/IC when they increased their emphasis on MA, PRPR, and LEAD during recovery periods.
- Recession phase of the industry cycle
During recessions, changes in OCF/IC positively related to BAL and LOC in thirty percent of all firms, positively related to SERD, TECH, and EXP in twenty percent of all firms, and positively related to PRPR, ECO, and CHAR in ten percent of all firms. However, ten percent of the studied firms also experienced a decrease in OCF/IC when increasing SERD, PROD, and EXP during recessions.
- Peak phase of the industry cycle
During peaks, changes in OCF/IC positively related to SAFE in thirty percent of all firms, PRPR in twenty percent of firms, and ECO, LEAD, TECH, HR, PROD, EXP, and BAL in ten percent of all firms. In contrast, changes in OCF/IC negatively related to eight strategy choices during peak phases: SAFE in thirty percent of all firms, CHAR and EXP in twenty percent of firms, and ECO, LOC, TECH, HR, and BAL in ten percent of firms.
- Expansion phase of the industry cycle

During expansions, changes in OCF/IC positively related to PRPR and PROD in forty percent of all firms studied, EXP in thirty percent of all firms, SAFE and BA in twenty percent of all firms, and MA, SERD, CHAR, LEAD, LOC, and HR in ten percent of all firms. Although some firms experienced the positive effects of strategy choices on their performance in terms of OCF/IC, many firms also experienced significant decrease in OCF/IC when increasing their emphasis on SERD, PRPR, CHAR, LEAD, LOC, SAFE, TECH, HR, PROD, EXP, and BAL during expansion periods.

- **Contraction phase of the industry cycle**

During contractions, forty percent of all casual dining firms included in this study had exhibited positive relationships between changes in their OCF/IC and LEAD. Thirty percent of all firms saw positive relationships between changes in their OCF/IC and their two strategy choices: CHAR and LOC. Twenty percent of all firms showed positive relationships between their change in OCF/IC and the following two strategy choices: HR and ECO, and ten percent of all firms exhibited positive relationships with TECH and BAL. Negative relationships between changes in OCF/IC and PRPR were observed in thirteen percent of all firms, and another negative relationships between OCF/IC and LEAD, TECH, HR, and BAL were also found in ten percent of all firms during the contraction phase.

Results by Strategy Choice

- With the exception of P.F. Chang's experience, MA was not related to OCF/IC in any of the firms, regardless of the phases of the industry cycle.
- SERD was more effective during recoveries, as twenty percent of all firms experienced positive relationships between SERD and OCF/IC.
- PRPR was positively related to OCF/IC in twenty percent of all firms during peaks, but negatively related to OCF/IC in thirty percent of all firms during contractions.
- ECO was positively related to OCF/IC during recoveries and contractions, as forty percent of all firms that applied ECO enjoyed an increase in OCF/IC during recoveries.
- CHAR positively related to OCF/IC in thirty percent of all firms during troughs and contractions, and negatively related to OCF/IC for twenty percent of all firms during expansions and peaks.

- LEAD was positively related to OCF/IC in thirty percent of all firms during troughs, and in forty percent of all firms during contractions
- LOC was positively related to OCF/IC during contractions, recessions, troughs, and recoveries.
- SAFE was positively related to OCF/IC during troughs, but negatively related during peaks.
- TECH was positively related to OCF/IC during recessions.
- HR was negatively related to OCF/IC during expansions, and no linkage between HR and OCF/IC was found during recessions
- PROD was positively related to OCF/IC in forty percent of all firms during expansions and contractions.
- EXP was positively related to OCF/IC of twenty percent of firms during recoveries.
- BAL was positively related to OCF/IC during recessions and recoveries.
- Other relationships among cycle phases, strategy choices, and OCF/IC were found to be very weak, mixed, or lacking.

Table 17: The Effect of Strategy Choice over the Restaurant Industry Cycle by Firm

Strategy Choice	Contraction	Expansion	Peak	Recession	Recovery	Trough
Mergers /Acquisition (MA)	No effect	Positive 10% +PFCB	No effect	No effect	Negative 10% -PFCB	No effect
Service Development (SERD)	No effect	Positive 10% Negative 10% +EAT -RT	No effect	Positive 20% Negative 10% +EAT +CAKE -PFCB	Positive 20% +APPB +EAT	Positive 10% +RARE
Pricing and Promotion (PRPR)	Negative 30% -APPB -CHUX -RT	Positive 40% Negative 30% +APPB, +EAT +DRI, +PFCB -CHUX, -OSI -RARE	Positive 20% +RT +PFCB	Positive 10% +RT	Positive 20% Negative 10% +EAT -PFCB +RT	Positive 10% Negative 10% -OSI +RARE
Eco-friendly and Energy Efficient Production (ECO)	Positive: 20% +CAKE +TEXAS	NO EFFECT	Negative 20% Positive 10% -APPB -EAT +RT	Positive 10% +RT	Positive 40% +APPB +EAT +DRI +RT	No effect
Community Involvement (CHAR)	Positive 30% +EAT +DRI +TXRH	Positive 10% Negative 40% +EAT -DRI -TXRH -PFCB -RT	Negative 20% -EAT -RT	Positive 10% +EAT	No effect	Positive 30% Negative 10% +CHUX +RARE +RT -OSI
Leadership and Communication with stakeholders (LEAD)	Positive 40% Negative 10% + APPB +EAT +DRI -RARE +TXRH	Positive 10% Negative 20% -PFCB +DR -OSI	Positive 10% +PFCB	No effect	Positive 10% Negative 10% + APPB -DRI	Positive 30% +CHUX +RARE +RT
Location and Construction (LOC)	Positive 30% + APPB +EAT +RT	Positive 10% Negative 10% +EAT -CAKE	Negative 10% - APPB	Positive 30% + APPB +PFCB +EAT	Positive 20% + APPB +TXRH	Positive 20% + APPB +RARE
Safety and Health (SAFE)	Positive 10% +TXRH	Positive 20% Negative 10% - APPB +EAT +DRI	Negative 30% -APPB -EAT -CAKE	No effect	No effect	Positive 20% + APPB +RARE

**Table 17: The Effect of Strategy Choice over the Restaurant Industry Cycle by Firm
(Continued)**

Strategy Choice	Contraction	Expansion	Peak	Recession	Recovery	Trough
Technological Innovation (TECH)	Positive 10% Negative 10% + APPB -PFCB	Negative 10% -DRI	Positive 10% Negative 10% +PFCB -EAT	Positive 20% + APPB +CAKE	Positive 10% + APPB	Positive 10% Negative 10% -PFCB +EAT
Human Resource Management (HR)	Positive 20% Negative 10% + APPB -OSI +RT	Positive 10% Negative 30% -PFCB +DRI -CHUX -RT	Positive 10% Negative 10% -CAKE +PFCB	No effect	Positive 10% + APPB	Positive 10% +RARE
Product Development (PROD)	Positive 20% +EAT +DRI	Positive 40% Negative 10% +EAT +DRI +PFCB +CHUX -OSI	Positive 10% +RT	Negative 10% -PFCB	No effect	Positive 10% Negative 10% -OSI +RARE
Unit Expansion (EXP)	Positive 10% + APPB	Positive 30% Negative 40% - APPB +EAT, +DRI +CHUX -OSI, -RARE -RT	Positive 10% Negative 20% +PFCB -CAKE -EAT	Positive 20% Negative 10% + APPB -PFCB +OSI	Positive 20% + APPB +CHUX +RT	Positive 20% Negative 20% -PFCB -OSI +RARE +RT
Balance between quality and cost (BAL)	Positive 10% Negative 10% +APPB -OSI	Positive 20% Negative 10% +EAT +CHUX -RT	Positive 10% Negative 10% -CAKE +RT	Positive 30% + APPB +EAT +DRI -OSI	Positive 40% + APPB +DRI +RARE +RT	Positive 10% Negative 10% -PFCB +RARE

Note:

- Except *service development* strategy choice (SERD) and technology innovation strategy choice (TECH) are lagged 1 quarter based on the results of cross correlations
- (+) Positive relationship between strategy choice (frequency of occurrence) and performance (OCF/IC)
- (-) Negative relationship between strategy choice (frequency of occurrence) and performance (OCF/IC)
- (%) Percentage of firms which had positive or negative relationships between strategy choice and performance.
 - good timing of strategy choice; ■ bad timing of strategy choice
- Ticker symbols of firms included in the study:
 Applebee's (APPB), Brinker International (EAT), Cheesecake Factory (CAKE), Darden Restaurants (DRI), O'Charley's (CHUX), OSI Restaurant Partners (OSI), P.F. Chan's China Bistro (PFCB), Rare Hospitality (RARE), Ruby Tuesday (RT), and Texas Roadhouse (TXRH).

Summary of Analyses and Findings

In this chapter, the restaurant industry cycle was developed during the period of 1992Q1 to 2010Q4 and thirteen strategy choices by casual dining firms were identified by using textual data during the period of 1996Q1 to 2010Q4. The chapter also reported the results of exploratory analyses on firm's responsiveness to changes in the industry cycle phase and the relationships between the industry cycle, strategy choice and firm performance. A Summary Table is provided in Chapter Five, and the complete interpretation of the results is detailed in Chapter Five.

CHAPTER FIVE: DISCUSSION AND CONCLUSIONS

This chapter discusses the theoretical and managerial implications of the results reported in chapter four and gives suggestions for future studies to enrich the knowledge related to the restaurant industry cycle and its impact on the effectiveness of strategy choice. A detailed discussion of these findings is conducted with respect to the propositions developed in previous chapters. Implications for the managers in the casual theme restaurant industry are presented and discussed, and practical recommendations are suggested. Finally, this chapter includes suggestions for future research aimed at improving our understanding of the influence of the restaurant industry cycle, as an external environment, on firms' strategies and performance, followed by an assessment of the limitations of the present study.

Table 18: Summary of Findings in the Current Study

Proposition	Summary of Findings
Proposition 1: The restaurant industry has unique cyclical characteristics	<ul style="list-style-type: none"> • Unique timing, duration, and amplitude of movements of the restaurant industry cycle are discovered. • Four cycles for 60 quarters between 1992 and 2010. • Increasing duration and amplitude in cycles over time. • Larger negative than positive amplitude. • On average, 17.5 quarters (4.5 years) between cycles (peak to peak or trough to trough).
Proposition 2: The casual dining industry has distinctive types of strategy choices	<ul style="list-style-type: none"> • Thirteen types of strategy choices are identified: 1) <i>Mergers and Acquisitions</i>, 2) <i>Service Development</i>, 3) <i>Pricing and Promotion</i>, 4) <i>Eco-friendly and Energy Efficient Production</i>, 5) <i>Community Involvement</i>, 6) <i>Leadership and Communication with Stakeholders</i>, 7) <i>Location and Construction</i>, 8) <i>Safety and Health</i>, 9) <i>Technology Use</i>, 10) <i>Human Resource Management</i>, 11) <i>Product Development through Brand and Menu</i>, 12) <i>Unit Expansion</i>, and 13) <i>Balance between Cost and Quality</i>.

	<ul style="list-style-type: none"> • The results were similar to the categorization of Olsen & Zhao (2001), and types of strategy choices were extended from the traditional types suggested by Porter or early researchers.
<p>Proposition 3: Casual dining restaurant firms change their strategy choices in response to changes in the industry cycle</p>	<ul style="list-style-type: none"> • Major strategy choices are growth strategy (Product Development and Unit Expansion) and Balance between Cost and Quality. • Increasing interests in Health/Safety, Community and Green Initiatives. • Similar movements of total number of strategy choices made with the restaurant industry cycle with one to three quarter time lag <ul style="list-style-type: none"> ○ Proactive before 1999Q3 and after 2008Q3 ○ Reactive between 1999Q3 and 2008Q3 • The homogeneity of strategy choices among casual dining firms. • Firms change such strategy choices as Mergers and Acquisitions , Service Development , Eco-friendly and Energy Efficient Production , Location and Construction , Safety and Health , Product development , Unit Expansion , and Balance between Cost and Quality to be responsive to changes in the environment.
<p>Proposition 4: The timing of strategy choices over the industry cycle determines their superior or inferior investment returns; the effects of strategy choice on firm performance vary with each phase of the industry cycle</p>	<ul style="list-style-type: none"> • The effects of strategy choices on firm performance are different according to the cyclical change of the industry environment. • Troughs were the good timing of Community Involvement, Leadership and Communication with Stakeholders, Location and Construction, and Safety and Health strategy choices. • Recoveries were the advantageous timing of service development, Eco-friendly and Energy Efficient Production, Location and Construction, Unit Expansion, and Balance between Cost AND Quality. • Expansions are the good timing of Product Development, and the bad timing of Community Involvement strategy choice.

	<ul style="list-style-type: none"> • Peaks are the appropriate timing of Pricing and Promotion, but inappropriate timing of Community Involvement and Safety and Health strategy choice. • Contractions are the advantageous timing of Eco-friendly and Energy Efficient Production, Community Involvement, Leadership and Communication with Stakeholders, Location and Construction, and Product Development, and the disadvantageous timing of Pricing and Promotion strategy choice. • Recessions are great times to make Location and Construction, Technology Innovation, and Balance between Cost and Quality strategy choices. • Many strategy choices are more effective when they are implemented during contractions, recessions, troughs, and recoveries than during expansions and peaks. • The relationships between strategy choice and firm performance varied across major casual dining firms, especially during expansions and peaks.
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Proposition One: *The restaurant industry has unique cyclical characteristics*

The results of the study revealed that the restaurant industry is cyclical and has unique characteristics in timing, duration, and amplitude. There are three major characteristics of the restaurant industry cycle: 1) longer upturn periods than downturn periods, 2) larger negative variation than positive variation from the long-term trends, and 3) an increase in both durations and amplitudes in the latest cycle.

A cycle is comprised of six phases: recovery (increase below the long-term trend), expansion (increase above the long-term trend), peak, contraction (decrease above the long-term trend), recession (decrease below the long-term trend), and trough. In the four large cycles developed in the current study, an upturn from trough to peak took place on average for 3 years (11.5 quarters) and downturns occurred for 1.5 year (6 quarters). The longer length of upturns

than downturns is generally accepted in business cycles (Burns & Mitchell, 1946). Technically speaking, the restaurant industry cycle is asymmetric in that downturns, including contractions and recessions, are briefer than upturns, including recoveries and expansions. This result is consistent with Choi's (1999) findings using annual restaurant industry output. One possible cause of the lengthening of the periods of recoveries and expansions is characterized by the self-reinforcing pressures to meet rising demand for the industry, which operate in the economy as a whole (Maksimovic & Phillips, 2002; Martin & Sayrak, 2003). Sterman (1986) insisted that the response of individual firms to changes in demand is amplified by self-reinforcing processes and that this increases the amplitude and length of the fluctuations of economic long waves. Additionally increased durations of upturn periods also arise because expectations for future growth in customer demand lead to individual firm's making additional capital investment to take advantage of high returns on investment. This causes further expansion and sustains the upswing phases of the industry cycle.

The maximum growth from the long-term trend (called a positive amplitude) in cycles was smaller than the maximum loss from the trend (called a negative amplitude). The smaller positive deviation from the long term trend proves that mature and saturated market condition of the restaurant industry exists, with limited growth opportunities. This condition forces firms to aggressively compete for market share by innovating and differentiating their products and services, not to simply extend their business. Steep slopes of cycles below the long-term trend require that managers should make more efforts and smart decisions during recessions, troughs, and recoveries when the degree of impact would be greater than expansions, peaks, and contractions.

During the period of 1992 to 2010, the industry has experienced four large cycles constituting two to three small embedded waves. The cycle indicates that an important change in the restaurant industry cycle occurred beginning with the 2003Q1 trough. The average length of a cycle was 17.5 quarters, but three cycles, before the most recent cycle, between 2003Q1-2009Q4 took place for 27 quarters (6.75 years), twice as long as the first three cycles between 1992Q2-2003Q1 (14 or 15 quarters measured from trough to trough). The restaurant industry experienced a trough every 14 quarters (3.5 years), which has extended to 27 quarters since 2003Q1.

The cycles in the current study exhibit both a longer duration and larger amplitude of the industry cycle. The latest cycle continued for approximately 7 years (27 quarters) and moved further away from the trend growth than did the prior two cycles. It is said that the service industry generally has a small number of cycles, a large amplitude, and a longer duration (Everts, 2006). According to the most recent cycle found in the current study, we see an even deeper variation and a longer duration of the cycle. As the impact of the industry cycle becomes much larger and lasts longer, it becomes more crucial that restaurant firms must clearly understand the industry environment and make long-term decisions in response to the changing industry cycle.

The findings of the study differ from those of Choi (1999) to some extent in timings, durations, and amplitudes of the restaurant industry cycle, since the current study uses a quarterly time series and the growth cycle instead of an annual time series and classical cycle and growth rate cycle. The growth cycle is the deviations of the actual growth rate from the long-term growth rate, and this approach to developing the industry cycle is the most commonly used by governments, practitioners, and researchers. Accordingly, this study shows some different cyclical patterns of the industry cycle from Choi's (1999) work, where the growth rate cycles and classical cycles (i.e. graphic presentations of the total annual output and its annual growth rate of industry activity) are used. It is believed that the growth cycle used in this study more accurately presents the cyclical behavior of the restaurant industry.

Proposition Two: *The casual dining industry has distinctive types of strategy choices*

The results of the content analysis indicate that casual dining firms adopted thirteen distinct types of strategy choices between 1996 and 2010: 1) *Mergers and Acquisitions*, 2) *Service Development*, 3) *Pricing and Promotion*, 4) *Eco-friendly and Energy Efficient Production*, 5) *Community Involvement*, 6) *Leadership and Communication with Stakeholders*, 7) *Location and Construction*, 8) *Safety and Health*, 9) *Technology Innovation*, 10) *Human Resource Management*, 11) *Product Development* through new brands, menu, and concepts, 12) *Unit Expansion*, and 13) *Balance between Cost and Quality*.

The findings are fairly comparable to the categorizations of strategy choices proposed in previous hospitality research by Olsen and Zhao (2001) and Zhao and He (2008), but not

necessarily identical. While Environmental Initiatives (or Eco-friendly and Energy Efficient Production, Community Involvement, and Leadership and Communication with Stakeholders are emphasized more than before, the industry has not shown much difference in strategy choices from 1996-2011, reflecting little innovative activity for strategy development.

The strategy choices are not fully matched with the most widespread typology of strategy choices given by Porter (1980, 1985). Porter's emphasis on the cost and differentiation dichotomy as two basic types of competitive advantage is not supported in this study since Porter's generic strategy is too simplistic and deterministic to fully capture the complex nature of the restaurant business. Many strategy choices such as Eco-friendly and Energy Efficient Production, Leadership and Communication with Stakeholders, Location and Construction, Technology Innovation, Human Resource Management, and Balance between Cost and Quality do not impose a trade-off in differentiation to achieve lower cost or vice versa (Campbell-Hunt, 2000). This implies that Porter's stuck-in-the middle scenario may be superior to focusing on only one source of competitive advantages—differentiation or cost leadership. For instance, casual dining firms use 'location and construction' as a strategy choice that pursues both cost leadership and differentiation. A firm looks for new locations, like malls, airports, hotels, or grocery stores, which can help the firm differentiate itself from other competitors. At the same time, this strategy choice often leads to cost leadership positioning through franchising or sharing physical assets with partners. Despite the widespread interest in and application of Porter's theory of generic competitive strategy in the literature, practitioners often fail to apply it to their business due to its lack of empirical adequacy.

As expected, growth strategy choice is conceived as a primary source of competitive advantage in the casual dining industry. Growth strategy choice manifested in various forms is still dominant in the industry. Casual dining firms have constantly strived to grow their market share through mergers and acquisitions, the creation of new services, concepts, brands, menus, or the internal expansion of units (i.e. number of unit growth).

Controlling cost and quality is always challenging for casual dining firms. High labor costs and raw material costs continue to plague the chains of casual dining restaurant firms. In the full service restaurant industry, firms cannot always focus on minimizing costs to meet customers' expectations for quality food and service. While cost leadership is often used as a

strategy choice in the limited service restaurant industry, casual dining firms endeavor to create a balance between cost and quality without sacrificing profit margins. Finding the right balance between cost and quality is the primary challenge that managers confront in the restaurant industry.

Human Resource Management is central to restaurant operations since the full service restaurant industry involves a high degree of interaction between employees and customers and labor costs account for approximately 30% to 35% of operating expenses. Firms allocate resources to improving training programs and effectively communicating with employees. A well-crafted training program helps an operation hold on to good employees and reduce turnover rates. It also serves to improve customer satisfaction and, accordingly, improve the top line of firm performance, sales.

Unlike other manufacturing or retail industries, the restaurant industry requires a heavy financial commitment to build properties where actual transactions of service and products occur. This leads to a firm's unique strategy choice to enhance the ambience, appearance, and uniqueness of its properties, and to seek new locations such as malls, airports, and colleges so that they can further grow.

Casual dining firms also use pricing, marketing, and promotional efforts to gain customers' attention. Discounting, various portioning, and advertising are the most common forms of marketing tactics in the industry, although they (especially price wars) often hurt the industry as a whole.

The initial form of Eco-friendly and Energy Efficient Production strategy choice is geared towards energy efficient production mainly to cut costs, but as ecological awareness increases, firms take more active actions towards green initiatives to appeal eco-conscious customers. Although this strategy choice still occurs mainly in large firms like Darden Restaurants, a green strategy from changing lighting to environmental friendly design or building (e.g. LEED) is an obvious trend in the casual dining industry.

Safety and Health has been very important in the mix of strategy choices in the restaurant industry, primarily because of the risks of lawsuit settlements or low sales stemming from food borne illness or obesity and a health conscious public is transformation of awareness to healthy

actions. Therefore, the industry is in a competition to achieve safe, healthy, and sustainable food supply.

As public opinion and subsequent political pressure increase, the industry's corporate social responsibility relates to efforts of employing Environmentally-friendly and Energy Efficient Production and Processes, supporting Charities and the Community, and making commitments to Safety and Health. Technology Innovation is a strategy choice that is a vital and integral part of most other strategy choices. Firms mainly focus on information technology, point of sales systems, and energy management systems. Information technology is utilized to enhance communication, inventory management, management information system (MIS), and customer relationship management (CRM). Point of sales systems are used for enhancing operational efficiency and improving service quality and energy management systems. Relating to the Eo-friendly and Energy Efficient Production strategy choice, firms make investments in innovative energy management systems.

Strategy choices are crucial for firms to survive and prosper within the industry. Although Porter and other previous researchers have made great contributions to the knowledge of generic strategy typology, practitioners and researchers still need an in-depth understanding of organizational sources of advantage. Unless our knowledge of these sources is matched by strategy choices-in-action in the industry, managers, practitioners, and researchers cannot properly utilize the strategy choices to understand relationships with other management issues (Campbell-Hunt, 2000). This study has attempted to uncover richer and more fine-grained descriptive categories of strategy choices that can be implemented in the casual dining industry.

Proposition Three: *Casual dining restaurant firms change their strategy choices in response to changes in the industry cycle*

In this study, it was hypothesized that casual dining firms respond to the changing industry cycle by adjusting their emphasis on a particular strategy choice. The analysis of this study at the firm and industry level found two characteristic patterns of strategy choices according to the phase of the industry cycle. First, the fluctuation of the aggregate of strategy choices at the industry level (i.e. total number of strategy choices made in the casual dining industry) is similar to that of the restaurant industry cycle which precedes the aggregate of strategy choices one to three quarter time lags between the third quarter of 1999 to the third quarter of 2008. The lagged co-movements may mean that the players within the casual dining industry reacted to a phase of the industry cycle by increasing or decreasing their resource allocation to strategy choices. However, this also implies that their responses are not proactive but reactive, in that upturns of the industry cycle appear to be appealing times for firms with the growth of strategy choices and its downturns force firms to downsize strategy choices.

Second, the most common strategy choices that firms made were Product Development and Balance between Cost and Quality over time. Product Development strategy choice refers to the development of both quality and quantity. While firms make a great deal of efforts in an attempt to differentiate their products and services from those of their competitors, managers often appear to believe that expanding business, instead of differentiating it, is the best way to bring competitive advantages to their firms. They continuously expand their menu offerings and focus on developing new concepts and brands to increase their market share. It was found that there are four different types of growth strategy in the industry: Product Development, Service development, Unit Expansion, and Mergers and Acquisitions. Although each type has its distinctive process and resource commitment, they share their orientation toward market or market share expansion.

The restaurant industry produces relatively low profit margins of four to eight percent. To maximize profits, restaurant firms use substantial resources to lower operating costs under the pressure of increasing commodity prices and labor costs, not by sacrificing quality. In this context, they simultaneously adopt cost leadership and differentiation strategy choice for their

products, processes, and services. Contrary to low fare airlines or quick service restaurants, cost leadership in casual dining firms alone cannot be sustainable and generally require firms to make extra efforts to meet the quality of foods and services that are expected within the segment.

The descriptive analysis and ANOVA indicate that casual dining firms do change their strategy choices throughout the industry cycle. Major growth strategies – Mergers and Acquisitions, Product Development and Unit Expansion – are significantly reduced during the recovery phase of the industry cycle. Another of the growth-related strategy choices – Location and Construction – is emphasized more during peaks, contractions, and recessions. Firms seek out better locations and high quality construction when the industry reached its peaks and began to drop (i.e. contractions and recessions). After the market just passes a peak, the continuous growth and profitability may be contingent upon finding new distribution channels. Most casual dining restaurants are in free-standing locations, and some are in crowded airports or malls. The move into untraditional locations is caused by the lack of the best locations that are taken by the increasing supply of the industry. The saturated market condition forces firms to find alternative channels to reach customers and maintain sustainable growth.

New brands and concepts were generally developed more during extreme upturns or downturns – expansions and recessions. During the expansion phase when the restaurant market is progressing and expanding, many firms anticipate the continued growth potential of extending their brands, menus, and concepts within their segments. During recessions, casual dining firms are likely to endeavor to overcome difficult conditions by differentiating their products from competitors or by offering value menu items. According to the National Restaurant Association survey in 2011, 38% of restaurant managers believe that simplifying menus to save on costs of preparation labor and ingredients is successful strategies to maintain their business during recessions. Although this strategy choice is not about launching a new product, it could be regarded as menu engineering, which is a part of Product Development.

Service Development, Eco-friendly and Energy Efficient Production, and Balance between Cost and Quality were more frequently used choices during recessions than during other phases of the industry cycle. These strategy choices are related to controlling operating costs through partnerships, energy-efficiency systems, and an optimal balance between service quality and cost reduction. During recessions, firms generally face difficulties in increasing the top line

of their income statement, so they tend to employ a strategy choice to minimize operating expenses. In response to public opinion and government pressure, firms seem to be forced to make investments in Safety and Health. With respect to their responses to the phase of the industry cycles, this strategy choice also could be more frequently used during expansions of continuously growing demand, since financing is readily available from the earnings provided by continuously growing demand for the industry.

Some strategy choices are adopted by the industry with regard to changes in the phase of the industry cycle: Human Resource Management, Pricing and Promotion, Technology Innovation, and Community Involvement. Human Resource Management contributes to the overall effectiveness (Worsfold, 1999) and competitive edge (Lockwood, 2007) of a firm. Particularly, products and services in the casual dining industry are delivered to customers through employees, which directly influence firm's sales. Thus, it is generally agreed that success within this industry heavily relies on the competencies of its employees and on how effectively they are managed to help the firm achieve its objectives. Casual dining firms constantly make investments in Human Resource Management programs. Pricing and Promotion was a very common strategy choice regardless of the change in the industry environment. Because the restaurant industry is mature, the positive role of pricing, promotion, and advertising may appear less obvious. Yet, they are crucial to maintain business. Leadership and Communication with Stakeholders, Technological Innovation, and Community Involvement showed no linkage with the phase change in the restaurant industry cycle, while Community Involvement has become more recently accepted. Although it is believed that, in volatile business conditions, leadership development may be essential, few firms actually looked into growing training budgets due to its lack of financial capability.

Shifts in the business cycle require managers to adjust strategy choices to perform better than competitors. This study found that major casual dining firms make changes in their emphasis on Mergers and Acquisitions, Service Development, Eco-friendly and Energy Efficient Production, Location and Construction, Safety and Health, Product Development, Unit Expansion, and Balance between Cost and Quality in response to the changing phase of the industry cycle (environment). The casual dining industry, as a whole, simply tends to follow the upturns and downturns of the industry cycle by increasing and decreasing the total number of

strategy choices but some firms tend to adjust their mix of strategy choices in response to the phase change in the industry cycle.

Proposition Four: *The timing of strategy choices over the industry cycle determines their superior or inferior investment returns; the effects of strategy choice on firm performance vary with each phase of the industry cycle*

Strategy must no longer be considered through the static approach; it must be understood by means of temporal viewpoints. This study takes up the challenge to explore the dynamics of industry and firm strategy choices. In this study, it was hypothesized that a strategy choice has a different level of efficacy according to changes in the industry cycle phase. Upswings and downswings play a vital role in supporting a firm's strategy choices; thus, the same strategy choice cannot be equally effective over the cycle's lifetime (Navarro, 2005). By using the restaurant industry cycle to uncover the best-timed strategic choice, casual dining restaurant firms can effectively allocate their resources among alternative strategic choices over the industry cycle so as to optimize their returns.

The analysis for Proposition Three revealed that casual dining firms do adjust their emphasis on different types of strategy choices. Since the industry cycle holds different opportunities and threats to support strategy choices, our next question becomes whether firms' choice practices during different phases of the industry cycle have been appropriate to maximize profits and create value. The exploratory analysis of the scatterplot matrix in the study indicates that a casual dining firm that altered a strategy choice at a certain point in time would have a better chance of outperforming its competitors. The analysis for Proposition Three indicates that casual dining firms increase their emphasis on most strategy choices during expansions, peaks, and recessions. However, using individual firms' cases, this study concludes that by adopting strategy choices during difficult times or prior to the expansion phase of the industry cycle, a firm has a better chance to improve its performance. Contractions, recessions, troughs, and recoveries are the appropriate times for firms to make strategic investments that are more likely to see positive outcomes.

Managers often believe that recessions and troughs pose threats, so they choose strategic actions to cut costs and reduce business capacity in order to survive. They may possess limited resources due to the continuous declines in demand that accompany contractions. As such, this study found that Balance between Cost and Quality was an appropriate strategy choice during recessions and recoveries. Leadership and Communication strategy choices are vital to success in managing difficult times. Communicating with employees and investors is important during good times, and during hard times like troughs at the bottom of the industry cycle, it becomes imperative. Firms that cut leadership-development programs and employee communication programs during difficult times may prompt managers or employees with high potential to leave when the industry environment improves. Strong leadership and communication also help firms to avoid conflicts with franchising partners, who are key sources of revenue in the casual dining industry.

Recessions and troughs also offer growth opportunities, especially for long-term value creation, when the recovery occurs (Bry & Boschan, 1971). Recessions in the economic or industry cycle are the periods of creative destruction ascribed to Schumpeter (1942). His argument is that the recurrent shift in the entry of new products, processes, or markets and the exit of old ones during recessions are essential. There has been evidence that innovations and other capital expenditures in recession periods significantly increased firms' value (Rigby, 2001). In this sense, the positive effects of strategy choices such as Location and Construction, Technology Innovation, Community Involvement, and Safety and Health are not surprising during recessions and troughs. These phases of the industry cycle are times to develop new markets and to invest in technology to quickly gain customers for the next recovery.

In the casual dining industry, the traditional strategy choice for growth has been either Product Development (new brands, concepts, or menus) or generic Unit Expansion. Product Development is the most common strategy choice within the industry, and it is often employed by casual dining firms during expansions and recessions. The analysis performed in this study showed that expansions, when most firms within the industry enjoy increasing demand, are the most advantageous time for Product Development. However, during expansions, most strategy choices except for Product Development did not significantly change the level of performance. The mature and saturated market conditions of the casual dining restaurant industry prevent the

industry from increasing its growth beyond a certain level. In this saturated market, rather than simply increasing the size of the business, strengthening strategy choices that improve internal competencies would work better.

An industry peak minimizes the industry's growth possibility and is a time when firms make Pricing and Promotion strategy choices. In the casual dining industry, firms tend to copy each other's strategy choices, resulting in the homogeneity of strategy choice. This similarity can be stronger during expansions and peaks when financial and other resources are more available for development. When all products are equal or similar, Pricing and Promotion is one possible strategy choice to differentiate one product from another. Thus, this study suggests peaks as the most advantageous time for Pricing and Promotion strategy choices.

As the industry slows down and moves into the contraction phase of the industry cycle, sales are threatened by limited and decreasing demand. During expansions and peaks, firms often speed up their growth strategy choices. This often causes a serious unbalance between supply and demand during the periods following peaks. A contraction is a time for firms to focus on differentiating their products and services to compete in the imbalance between demand and supply. This study suggests five strategy choices: Location and Construction, Product Development, Community Involvement, and Leadership and Communication with Stakeholders.

Of the sample firms studied, only one firm saw superior performance when it focused on Mergers and Acquisitions during the expansion phase of the industry cycle. The casual dining industry has experienced a great many mergers and acquisitions (M&A), especially since 2000. Firms often acquire their competitors to increase market share, to extend business to new segments, or to manage financial issues. Typical findings from studies on Mergers and Acquisitions have suggested that M&A activities generally do not enhance firm value either in the short term or the long term (Reid & Olsen, 1981). Moreover, acquisitions by private equity firms often hurt a firm's reputation and operations. It is also well-known that the price and promotion-based competition that generally occurs in a mature and saturated market does not give competitive advantages to a firm. As environmental awareness increases and energy prices remain unstable, it is obvious that many hospitality firms as well as casual dining firms need to use alternative and renewable energy sources, eco-friendly products, green and sustainable

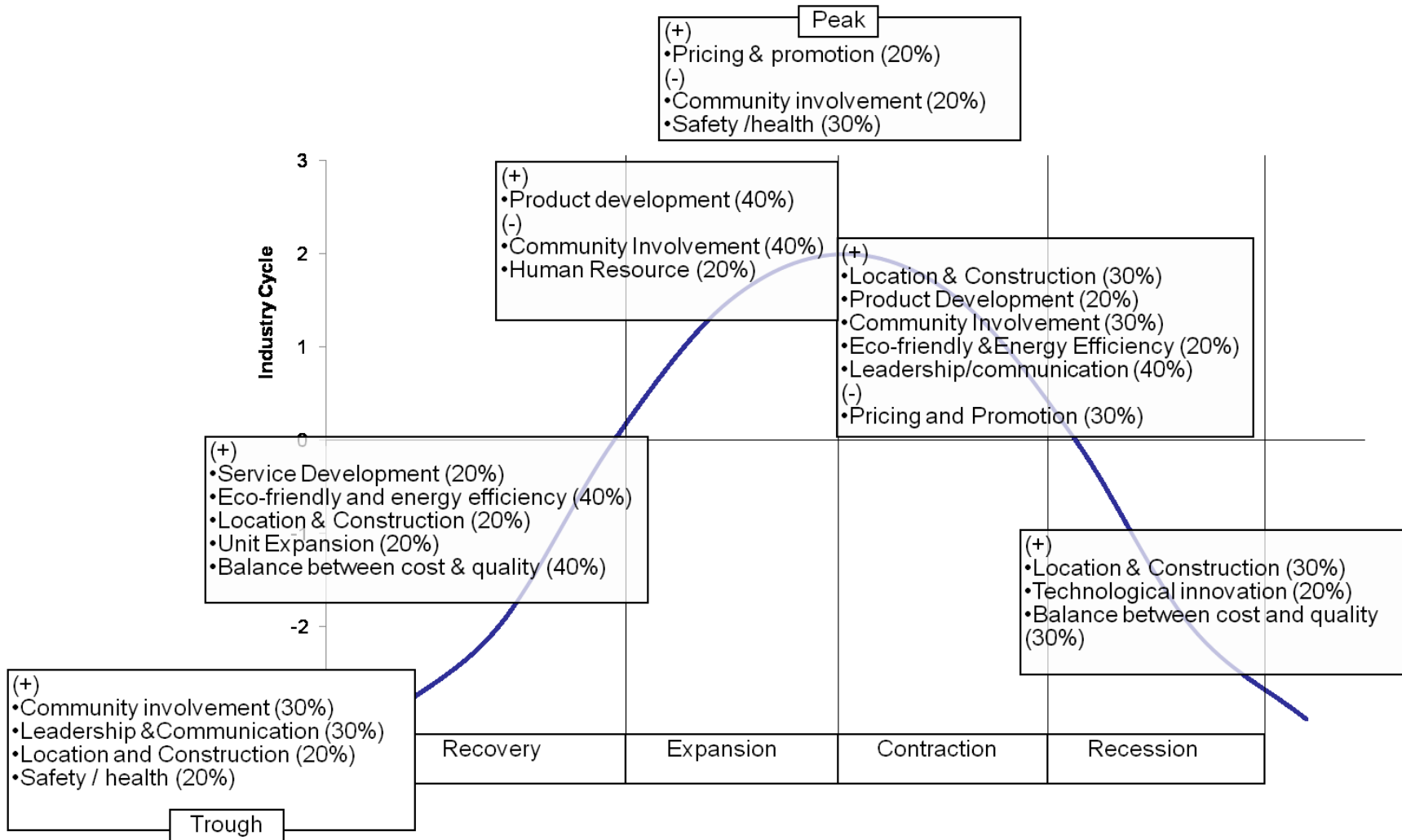
designs, and energy-efficient systems. However, these investments generally require high capital expenditures with a long amount of time to realize returns.

A summary of the relationships is presented in Figure 23. This summary indicates probabilities (%) of an increase in operational cash flow per invested capital a firm will have when making a particular strategy choice during a particular phase of the industry cycle. This also presents the proper mix of strategy choices for each phase of the industry cycle to optimize returns on investments.

This study based on ten major casual dining firms reveals that firms making the same strategy choice experience different levels of efficacy. It also should be noted that making the same strategy choice as competitors is not effective for all firms. Several firms even saw negative cash flow on invested capital when they increased a particular choice. During expansions, the relationships between all strategy choices except Eco-friendly and Energy Efficient Production and firms' performance are variable and result in mixed outcomes. This implies that firms' responses and performance, especially during expansions, are contingent upon other internal factors, called core competencies. Financial resources are readily available for most firms when the overall industry demand grows (i.e., expansions). When firms copy strategy choices made by industry leaders, those strategy choices become industry-wide critical success factors. Investments in critical success factors generally do not allow a firm to achieve an advantage over the competition, but are necessary to survive within the industry. In this case, a firm's skills and capabilities to effectively and efficiently deliver products and services become key to having a greater chance to achieve profitable and sustainable advantages.

According to the co-alignment principle, the fit between the industry environment and a firm's strategy choice will generate a high chance of achieving competitive advantages when the firm has core competencies to deal with the strategy choice. Core competencies are skills, resources, processes, and capabilities that support a firm's competitive method (Olsen, et al., 1998). Although the sample firms in the study tend to be homogeneous in terms of their business, different levels of core competencies across firms should result in variability among the relationships (Bry & Boschan, 1971; Olsen, et al., 2007).

Figure 21: Summary of Relationships between Industry Cycle, Strategy Choice, and Performance



Note: (+) positive relationship b/w SC & OCF/IC; (-) negative relationship; (%) percentage of firms that have the (+) or (-) relationships

Contribution of the Research

The study explored industry cycle, strategy choices, and performance and their linkage within the context of the casual dining industry. The first contribution of this work is a longitudinal investigation of industry environment, strategy choice, and its outcome in the casual dining industry. Little can be found in literature on temporal issues of strategic management. Assuming static homogeneity of the period investigated could not answer the effect of the timing of adopting a strategy choice. The present study differs from previous studies as it considers temporal aspects of the fit between the industry environment, strategy choice, and performance.

This study contributes to the body of knowledge by proposing the restaurant industry cycle in order to uncover effects of the timing of strategic choice. While companies feel a strong need to adjust or develop a strategic choice according to swings in the industry cycle, they often do not know what to invest in or when to invest (Navarro, 2005; Deleersnyder et al., 2004). By using the industry cycle as a tool for timing decisions and uncovering well-timed strategy choices, the current study sheds light on the importance of the timing of a strategy choice and provides casual dining restaurant managers with guidance on how to determine the right time to make a particular investment and to effectively allocate their resources among alternative strategic choices.

Another contribution of this study is to make a case for the importance of alignment in the casual dining industry. This study validates the notion of the co-alignment principle that the strength of the alignment between strategy choice and external environment provide a higher chance to achieve competitive advantage. As found in the study, strategic success depends on the change in the external, industry environment. Although firm structure in the co-alignment principle was not directly tested in this study, this study also suggests that firm structure is an important factor that determines the success of a strategy choice. The analysis reveals that casual dining firms must enhance their competencies to support the implementation of the strategy choice (Bry & Boschan, 1971; Olsen, et al., 1998, 2007). To maximize the outcome of a strategy choice, firms should be able to detect the change in the industry environment, make the appropriate right strategic decision, and possess capabilities and resources to effectively implement the strategy choice.

This work also contributes to future theory building with regard to what strategy choices are present and how strategy choices have evolved in the casual dining industry. Empirical research on environment strategy performance tends to preselect strategic variables and employ the limited number of variables for quantitative analysis. Limiting the number of strategic variables does not allow for richness in explanation of the strategy choices and their outcomes. In this study, strategy choice variables were not limited and the selection has been achieved in the process of the text analysis. The textual content analysis used in this study leads to the consideration of all externally reported strategies (Langley, et al., 2007). As a result, it is able to better capture complex business phenomena.

Lastly, this study proposes the industry cycle as a source of identifying opportunities and threats in external environments. Practitioners and researchers generally rely on the business cycle that may ignore the presence of the industry cycle. The business/economic cycle is a type of fluctuation in the aggregate economic activity of nations and the industry cycle refers to cyclical patterns or fluctuations in sales, price, capital investment, and capacity of an industry (Tan & Mathews, 2009). Cyclical dynamics at the level of individual industries often present different patterns from those of the general business cycle. Most industries behave differently to the traditional economic/business cycle (Tan & Mathews, 2009) and lead or lag the business cycle (Choi, 1999). Some industries are more cyclical, counter-cyclical, or not sensitive to the business cycle (Mathews & Tan 2007; Petersen & Strongin, 1996; Pfleeger, 1997). Using a more directly applicable source of information gives managers a better chance to make more appropriate strategic decisions. Dealing with the enormous complexity in competitive environment, in strategy choice, and in organizational structure is a very challenging work. The complexity also renders decision making more difficult for managers in casual dining firms. The introduction of the industry cycle in strategic decision making process should help managers to successfully navigate in turbulent environments.

Limitation and Future studies

Despite the efforts and endeavors made to ensure the quality of the analysis, when exploring the dynamics of the industry environment and its strategic responsiveness with both a quantitative and qualitative approach, several limitations still exist and may be improved by

replication in further studies. The following limitations should offer interesting avenues for further research.

One of the limitations of the study is inherent to the complex nature of strategy. Strategy choices cannot be mutually exclusive since they share resources and support each other and there is no firm that operates with a single strategy. Firms use a different mix of strategy choices that can create synergies and different levels of value. Understanding the pure impacts of a strategy choice on firm performance is not possible with the existing knowledge and methods in the field of strategic management, since there are few strategy choices that are mutually exclusive.

In this study, strategic variables are directly derived from texts and are used to assign texts to meaningful categories that reflect types of strategy choices through a content analysis. An assumption underlying content analysis is that a strategy choice with a higher frequency is seen as more important than another strategy choice that occurs less frequently. Although texts were carefully reviewed, the frequency of occurrence may reflect texts that report a firm's exit of a strategy choice, not the entry of the strategy choice. The impacts of governments, financial institutions, public opinion, or pressure groups would also force firms sometimes to externally report their activities. Future research could examine the validity of measures drawn from content analysis by comparing the measures with other objective measures (e.g. number of units, percent of franchised units, number of M & A contracts, or employee's productivity).

This study does not integrate geographic location of the firms' units although it is recognized that the demand for the industry and other industry external environments may vary with locations. For example, a particular state may experience the recovery phase earlier than other states and, accordingly, firms may have different strategy choices by location. Similarly, each firm would have different levels of internal skills, resources, and capabilities for applying the same strategy and the strategy may, therefore, be more effective in a particular firm because of the firm's strong internal competencies and skills resources.

Although firm structure, especially core competencies that internally supports strategy choice, was not included in the analysis of the study, this study obviously raises an important issue of how firms insure to allocate resources to maximize the value of a strategic investment. Inappropriate processes and limited resources of firms often prevent them from altering strategy choices. Moreover, individual firms may not even recognize the change in the industry

environment, if leaders are not sufficiently capable of scanning business environments. The examination of firm structure in addition to the strategy choices should give a clearer picture of the linkage between the industry cycle, strategy choice, and firm performance.

Conclusion

In this study, we developed the restaurant industry cycle, identified strategy choices in the casual dining industry, and examined the relationship between the industry cycle, strategy choice, and firm performance. Changes in the industry environment create different threats and opportunities for casual dining firms. According to the co-alignment theory, a firm's strategy choice that is properly matched with the environmental change will have a higher chance of outperforming competitors. In this context, the main idea in this study is that firms must constantly adapt to their industry environments in order to survive and prosper. Firms are always confronted with making decisions to effectively adapt to the changing industry environment. Such a dynamic relation indicates that correctly timing strategy choice is critical to ensure competitiveness and both short-term and long-term success. Nevertheless, much research in the field of strategic management has remained static and has not fulfilled managers' concerns with correct timing. Strategic decisions cannot be correctly made through a static analysis and must be understood with a longitudinal approach to explore change over time. With static thinking, strategic mistakes in decisions cloud over firm's true potential to generate cash flow. This study endeavors to bring attention to the importance of the timing of a strategy choice and show how the industry cycle can be utilized to lessen the challenge. The proper timing of a strategic move will permit managers to cleverly capture and use windows of opportunity. This study helped us gain in-depth insight into when the value of a strategy choice can be maximized and how casual dining firms can improve their performance within the dynamic changes of the industry environment.

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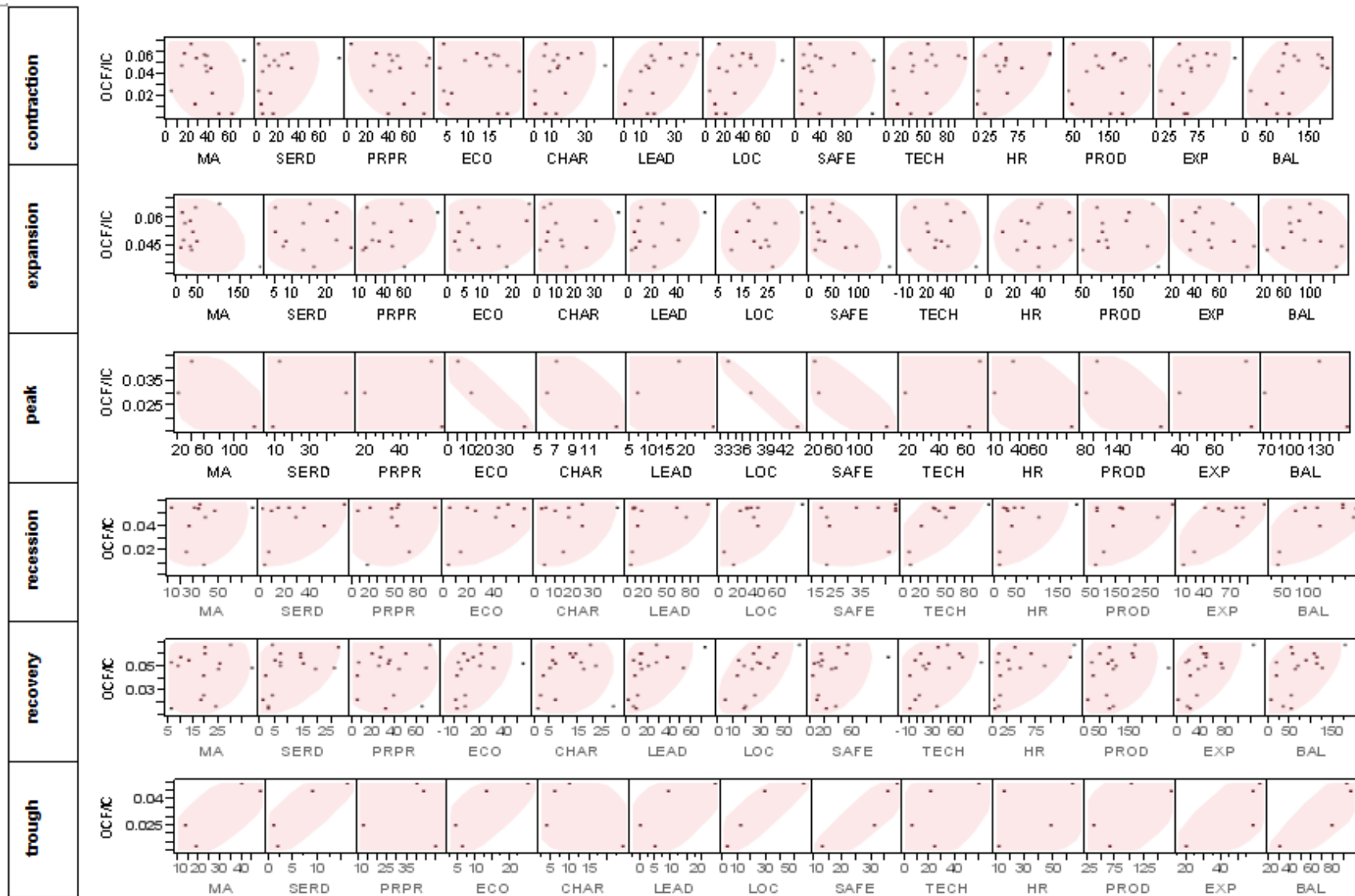
Appendix A: Excluded words in Content Analysis

ability	area(s)	bill	cents	consultant(s)	diners	entire
able	aren't	billion	ceo	consulting	dining	entrees
about	around	bistro	certain	consumer(s)	dinner	environment(s)
above	article(s)	bit	certainly	content	dinner house	equity
access	as	black	chain(s)	continue(s)	director(s)	especially
according	asian	blog(s)	chairman	continued	disclosed	estate
account	ask	blue	challenge(s)	continuing	discloses	estimated
accounting	asked	board	change(s)	contract	discontinued	estimates
across	assets	bob	changed	cook	dish(es)	even
action(s)	associates	bones	changing	cooking	district	event(s)
actually	association(s)	boost	charge(s)	copyright	dividend	ever
ad	at	border	check	core	division	every
add(s)	atlanta	boston	cheddar	corner	do	everyone
added	attention	both	cheese	corp	document	everything
adding	attorney	bottom	cheeseburger	corporate	does	example
addition	august	bought	cheesecake	could	doesn't	exchange
additional	available	bowl	chef(s)	country	doing	exclude
advantage	average (avg.)	box	chicago	count(s)	dollar(s)	executive(s)
affected	award(s)	branches	chicken	county	domestic	existing
after	away	bravo	chief	couple	domino's	expect(s)
again	back	bread	children	course	done	expectations
against	bacon	breakfast	chilli	court	don't	expected
age	bad	breeze	china	cream	double	expense(s)
agency	bahama	bring(s)	chinese	create(s)	dowjones	expensive
aggressive	bakery	brooks	chocolate	created	down	experience
ago	balance	brought	choice(s)	creating	downtown	experts
agreed	bank	buffet	cited	credit	downturn	explain(s)
agreement(s)	bankruptcy	build	cities	cuisine	drink(s)	explained
ahead	bar(s)	built	city	culinary	drive(n)	express
ale	barbecue	burger(s)	claim(s)	current	drop(ed)	face
all	base(d)	business(es)	class	currently	due	facility
allow(s)	basic	but	clear	customer(s)	during	fact
allowed	basis	butter	climbed	cut	each	factory
almost	beach	buy	close(d)	daily	earlier	fall
along	became	buying	club	dallas	early	family(ies)
already	because	by	co	date	earned	famous
also	become(s)	café(s)	coast	david	earnings	far
although	becoming	cake	coffee	day(s)	east	fast
always	beef	california	college	deal	easy	fat
america	been	call(s)	com	debt	eat	feature(s)
american(s)	beer	called	come(s)	december	eating	featuring
amid	before	came	coming	decided	economic	february
among	began	can	comment	decision	economy	federal
amount	begin(s)	can't	commitment	decline(d)	education	feel
an	beginning	cap	common	delivery	effect(s)	feet
analyst(s)	behind	capital	company(ies)	demand	effective	fell
analysts	being	capitalization	comparable	denver	effort(s)	few(er)
and	believe	caps	compared	department	eight	field(s)
angeles	bell	card(s)	compensation	designed	either	figure
announced	below	cards	competition	despite	elliot	filed
annual	benefit(s)	care	competitive	dessert(s)	else	finance
another	besides	career	competitors	develop(ed)	employer(s)	financial
any	best	caribbean	completed	developing	employment	find
anything	better	case(s)	composite	development	end(s)	finding
appeal(s)	between	cash	concept(s)	did	ended	fine
apple(s)	beverage	casual	concern(s)	didn't	english	firm(s)
approach	beyond	category	conference	difficult	enough	first
april	big	center	confidence	digests	enterprise(s)	fiscal
are	biggest	central	consider(ed)	diluted	entertainment	fish

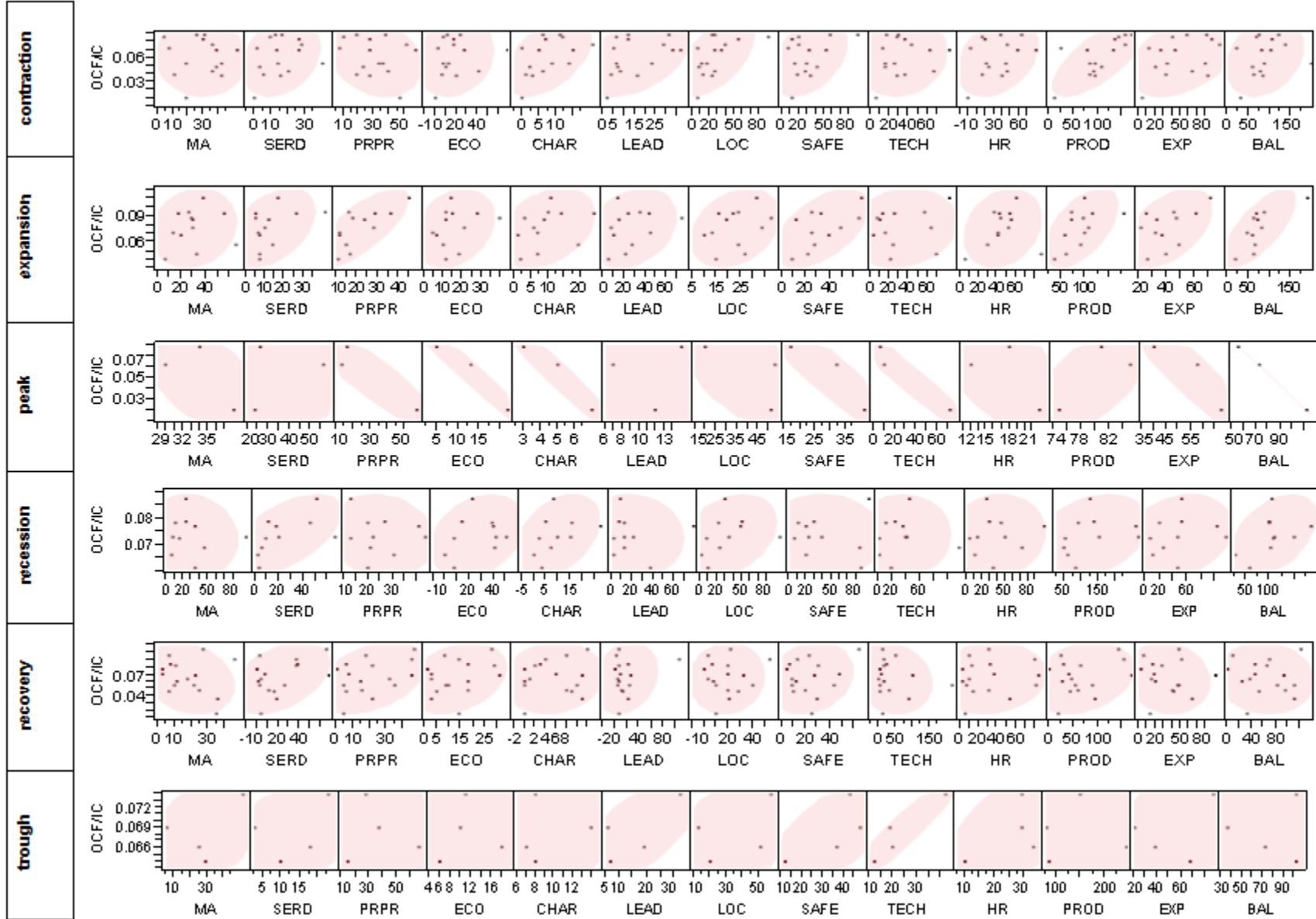
five	government	ill	keep	lost	moving	oil
flagship(s)	grand	image(s)	keeping	lot	mr	old
flat	great(er)	impact(s)	kept	love	mrs	olive
flavor(s)	green	important	key	low	ms	on
florida	grew	improve(s)	kfc	lower	much	once
flow	grill(ed)	improved	kids	lunch	multiple	one
focus(ed)	grille	improvement	kind	macaroni	mushroom(s)	onion(s)
followed	ground	in	king	made	music	online
following	group(s)	inc	kitchen	mail to	must	only
food(s)	grow(s)	include(s)	knapp	main	my	onto
foodservice	growing	included	know(n)	major	name(s)	open
foot	grown	including	kristina	majority	named	opened
for	growth	income	la	make(s)	namesake	operate(s)
forecast	guest(s)	increase(s)	language	maker	nasdaq	operated
form	had	increased	large	making	nashville	operating
former	half	increasing	larger	management	nation(s)	operation(s)
forward	hand	increasingly	largest	manager(s)	national	operational
found	happy	independent	las vegas	managing	nation's	operator(s)
foundation	hard	index	last	manhattan	nationwide	opportunities
founded	has	indicated	late	many	near	opportunity
founder	have	individual	later	march	nearly	option(s)
four	having	industrial	latest	margins	need(s)	or
fourth	he	industry	latin	mark	needed	orange
free	head	information	launch(ed)	market(s)	negative	order(s)
french	headline	ingredients	law	mass	neighborhood	organization
fresh	headquarters	initial	lawsuit(s)	matter	net	original
friday	healthy	initiative(s)	lead	may	network	orlando
fried	held	instead	leader(s)	me	never	other(s)
friendly	help(ed)	institute	leading	meal(s)	newly	our(s)
fries	helping	institutions	learned	means	news	out
from	her	insurance	least	meanwhile	newstex	outlets
front	here	interest	leave	meat	nexis	outlook
frozen	hers	international	led	meet	next	outside
fruit(s)	high(er)	into	lee	meeting	neither	outstanding
full	highest	introduce(d)	left	member(s)	night	over
fun	hill(s)	investment(s)	legal	menus	nine	overall
fund(s)	him	investor(s)	length	mexican	ninety	own(s)
further	himself	involved	less	mexico	no	owned
future	hired	is	let	miami	north	owner(s)
gain(s)	his	isn't	lettuce	michael	not	pacific
gained	history	issn	level	mid	note(s)	page
game	hit	issue(s)	levels	middle	noted	paid
garden	hold	it(s)	lexis	might	nothing	panel
garlic	holdings	italian	license	million(s)	november	parent
gas	home	italy	life	mind	now	park
gave	hospitality	item(s)	light	minimum	npd	part
general	host	itself	like	minneapolis	nra	particularly
generally	hot	james	likely	miss	nrn	partner(s)
get(s)	hotel(s)	january	limited	mister	number(s)	party
getting	hour(s)	japanese	line	mix	nyse	past
given	hourly	job(s)	link(s)	mock	observer(s)	pasta
give(s)	house	joe	list	model	october	patrons
giving	houston	john	little	monday	of	paul
glass	how	joined	lobster	money	off	pay
global	however	journal	local	month(s)	offer(s)	pending
go(es)	html	jpg	located	monthly	offered	people
goal(s)	http	jr	long	more	offering(s)	per
going	huge	juice	longer	morgan	office	percent
golden	hut	july	look(s)	most	officer	percentage(s)
gone	ice	jump(ed)	looking	mostly	officials	performance
good	idea(s)	june	los angeles	move(s)	often	period
got	if	just	loss(es)	moved	ohio	person

personal	question	role	signed	study	tom	washington
peterson	quick(ly)	roll	significant	style	tomato(es)	water
phone(s)	raise	room	similar	success	too	way(s)
pick	raised	rose	simple	successful	took	we
pizza	range	round	since	such	top	weak
place(s)	rare	ruby	single	summer	topped	web
plan	rate(s)	rubytuesday	international	supply	total	wednesday
planned	rather	run	site(s)	support	tough	week(s)
planning	rating(s)	running	situation	sure	toward	weekly
plans	re	russell	six	survey	track	well
plate(s)	reach	said	size	sushi	trade	went
play	reaching	salad(s)	slid	sweet	traded	were
players	ready	sale(s)	slightly	system(s)	trading	west
plus	real	saloon	slow	systemwide	traditional	what
point(s)	really	same	small(er)	table(s)	traffic	when
policy	reason	san	smith	taco	trans	where
poor	received	sandwich(es)	so	take(s)	transaction	whether
popular	recent	sauce	sold	taken	travel	which
population	recently	saw	solution(s)	taking	trend(s)	while
pork	recession	say(s)	some	talk	tried	white
position(s)	record(s)	saying	someone	tampa	true	who
positive	recovery	school(s)	something	target(s)	try(ing)	whole
possible	red	schools	sometimes	taste(s)	tuesday	whose
post	reduce(d)	scott	soon	tax	turn	why
posted	region	seafood	south(ern)	team	turned	wide
potatoes	regional	season(s)	space	technomic	tv	wild
potential	region	seat(s)	special	tell	two	will
power	related	seattle	specialty	term(s)	type	wine
practices	relations	second	specific	test	typically	wings
premium	remain(s)	sector	spend(s)	testing	under	winners
prepared	remained	securities	spending	texas	understand	with
presented	report(s)	see	spent	text	unemployment	within
president	reported	seeing	spicy	than	unit(s)	without
press	reporting	seeking	spokesman	that	united	wjco
pressure	reprint	seem(s)	spot	the	university	women
pretty	research	seen	spread	their(s)	unlaunch	won't
previous	reserved	segment	spring	theirs	until	word(s)
previously	resources	sell	square	them	up	work(s)
price(s)	respectively	selling	staff	theme	upscale	worked
priced	rest	senior	stake	themselves	us	working
primarily	restaurant(s)	sense	standard(s)	then	use(s)	world
prime	restaurateurs	september	start(s)	there	used	worldwide
print	result(s)	serve(s)	started	these	using	worth
prior	resulted	served	starting	they	value	would
private	retail(s)	servers	state(s)	thing(s)	variety	write
probably	retailer(s)	service(s)	statement(s)	think(s)	various	wsj
problem(s)	return	serving	stay	third	vegetables	wsjo
process	revenue(s)	session	steak	this	verily	www
produce	review	set	steakhouse	those	versus	year(s)
products	ribs	seven	step(s)	though	very	yesterday
profit(s)	rice	several	steve	thought	veteran	yet
program(s)	richard	share(s)	steward	three	vice	york
project(s)	rick	shareholder(s)	still	through	view	you
projected	right(s)	share price	stock(s)	throughout	vol	young
promoted	rise	she	stock price	thursday	volume(s)	your(s)
prototype	rising	shift	store(s)	this	vs	
provide(s)	road	short	story	time(s)	wage(s)	
public	roasted	should	strategic	tip(s)	wait	
purchase	robert	show(s)	strategy (ies)	to	wall	
put	robin	shrimp	street	today	want(s)	
quarter(s)	roce	side	strong	together	wanted	
quarterly	rock	signature	students	told	was	

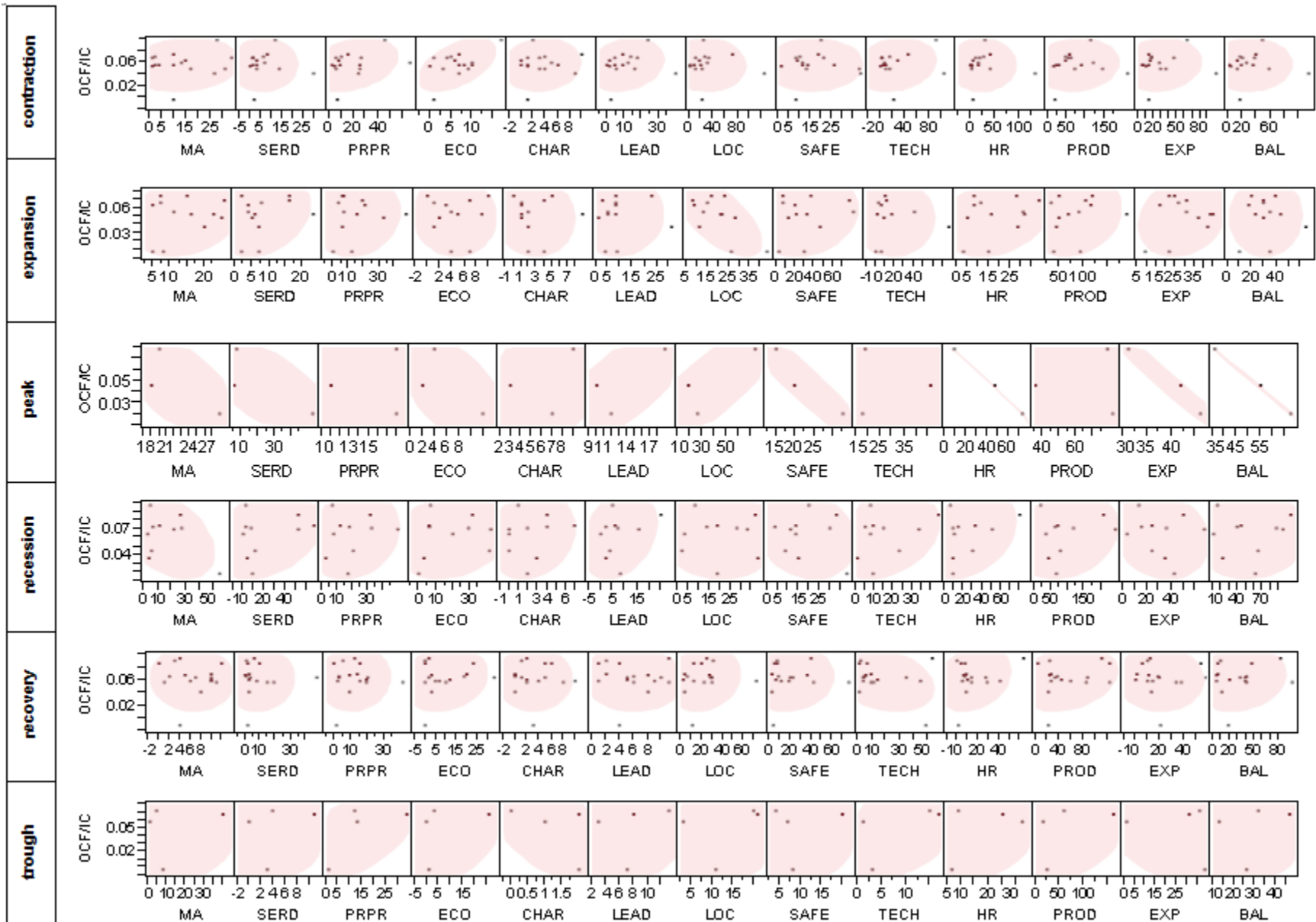
Appendix B: Relationships between Strategy Choice and Performance over the Industry Cycle Applebee's/DineEquity



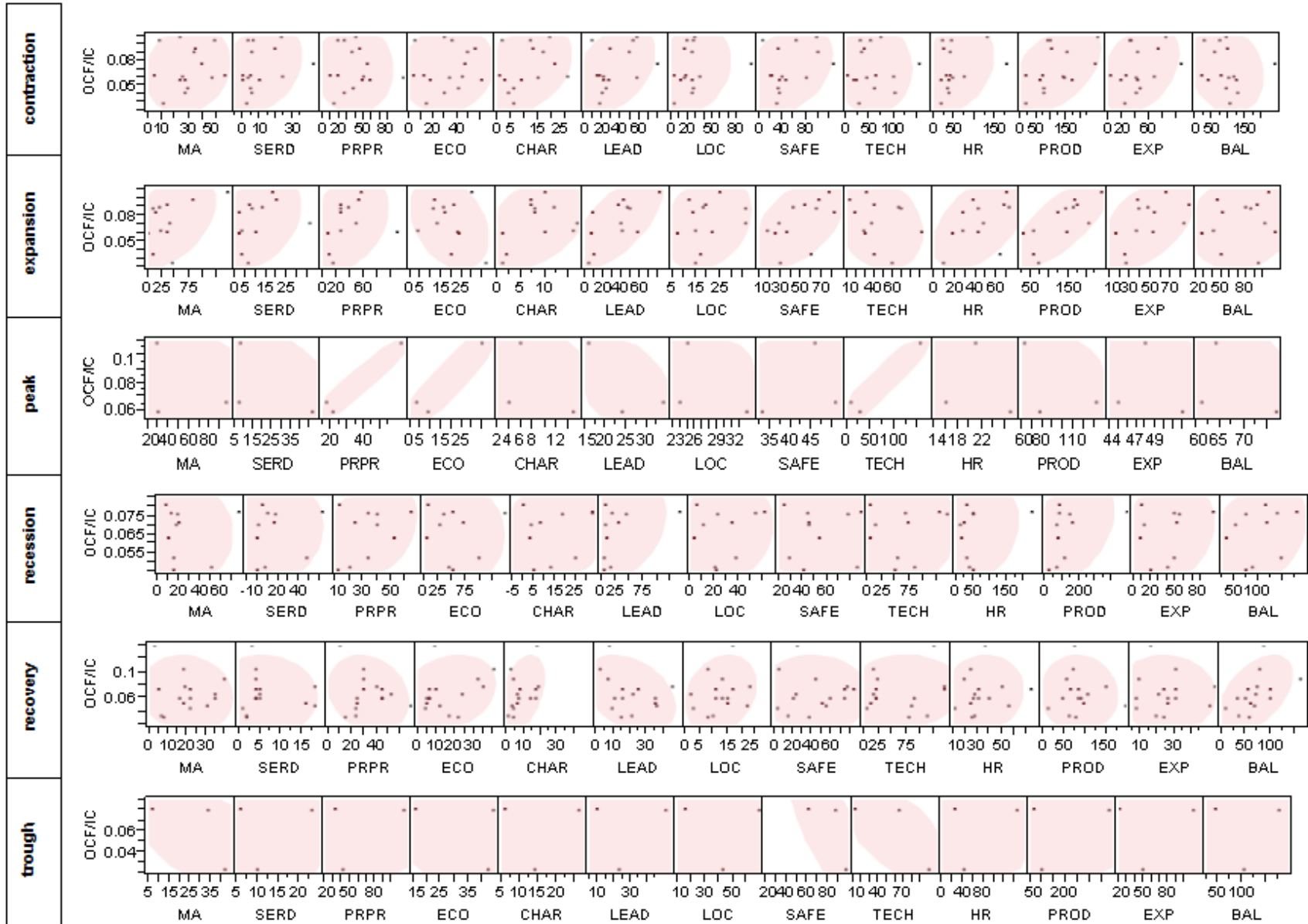
Brinker International



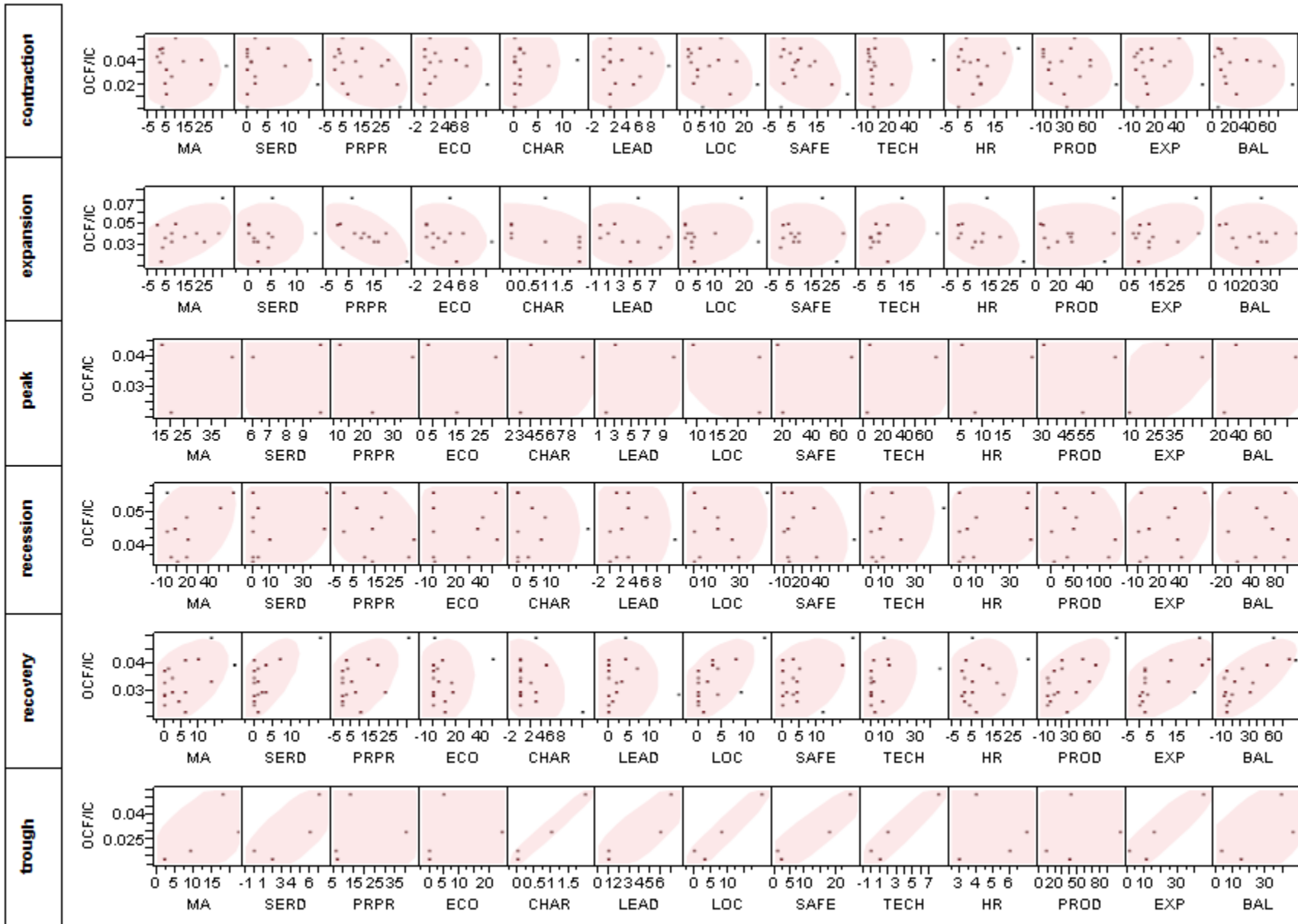
Cheesecake Factory



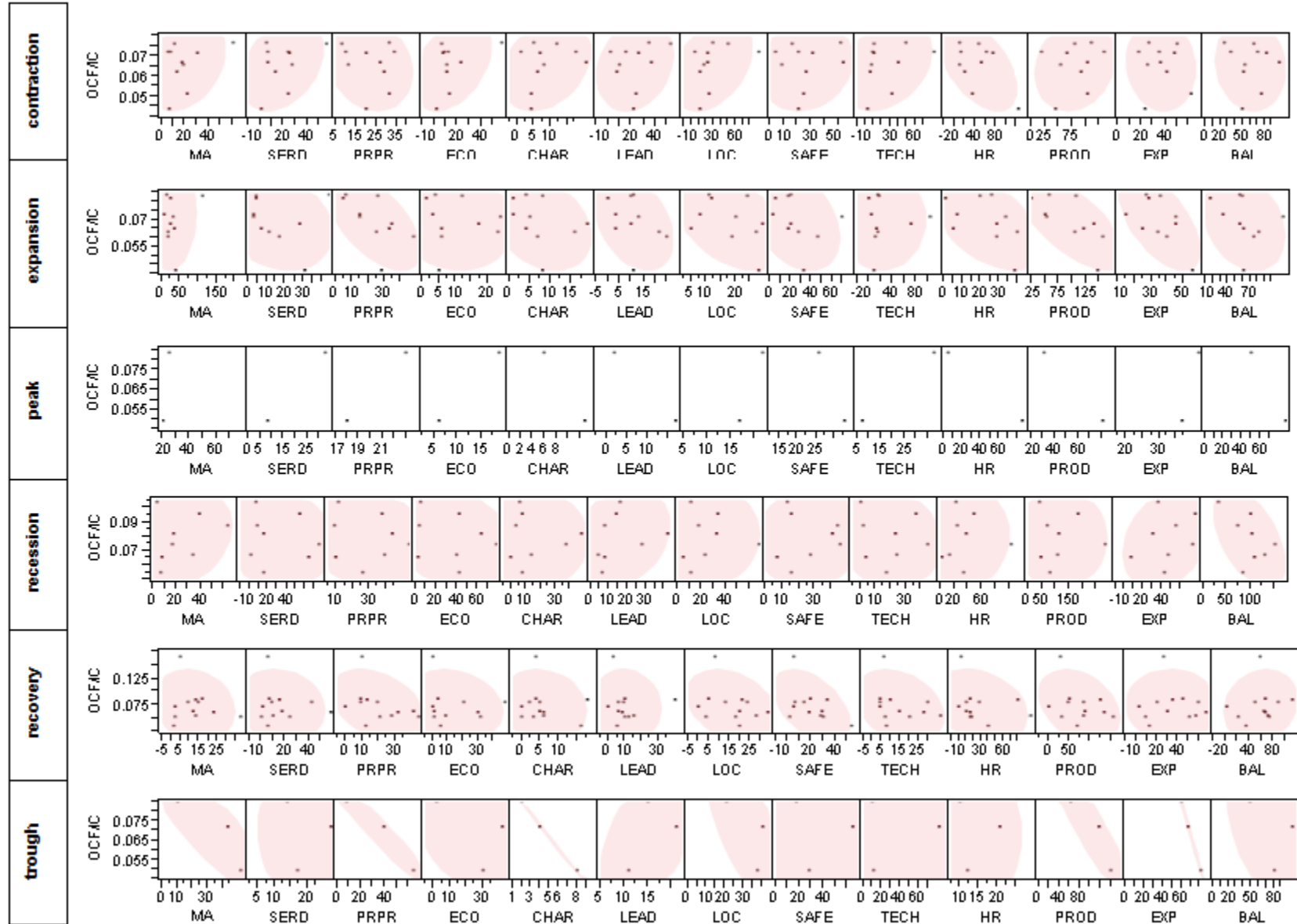
Darden Restaurants



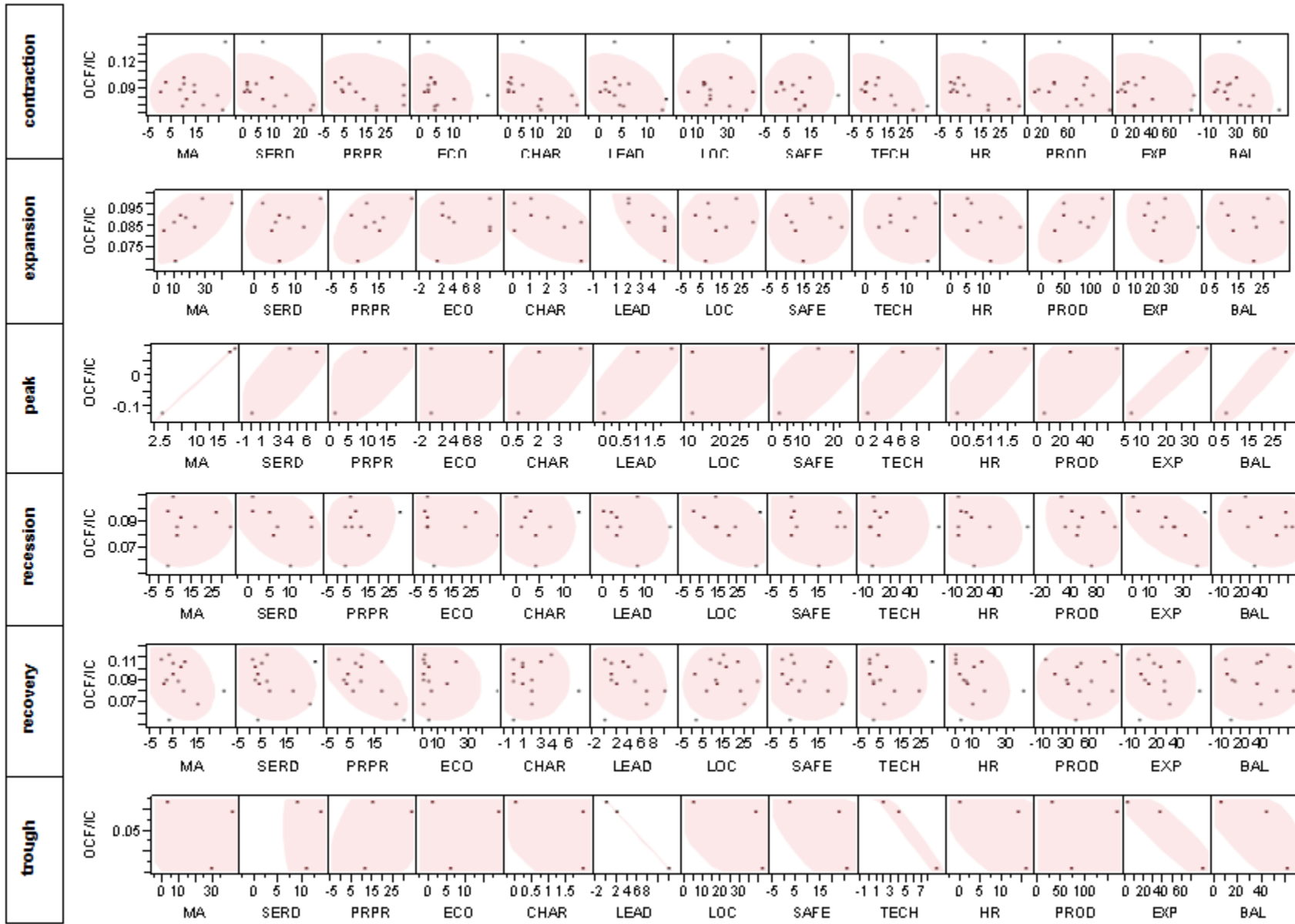
O'Charley's



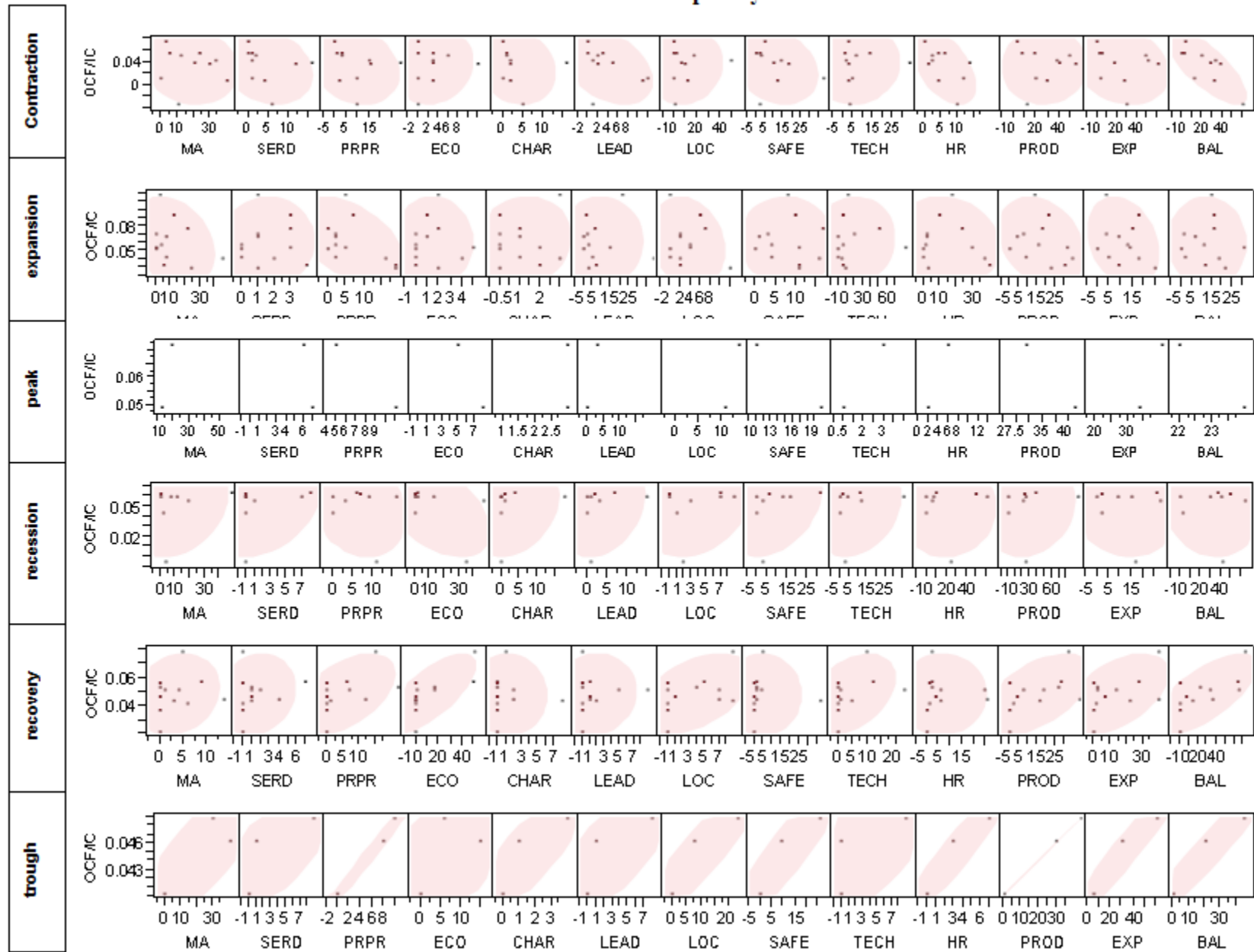
OSI Restaurant Partners



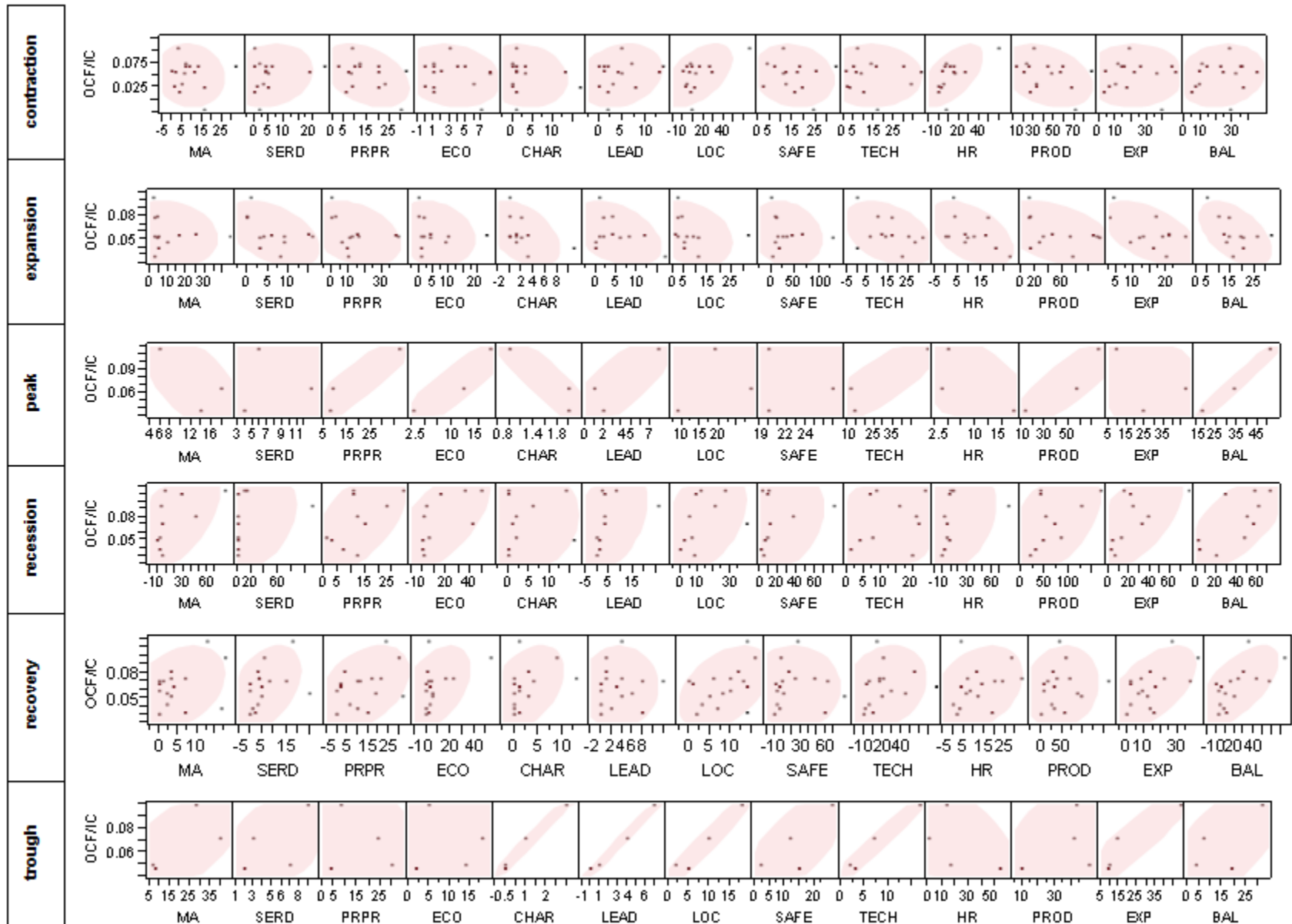
P.F.Chang's



Rare Hospitality



Ruby Tuesday



Texas Roadhouse

