

**A conceptual framework on Blue ocean strategy :
a study to
Determine the understanding of banks employees
towards practicing blue ocean strategy**

الإطار المفاهيمي لاستراتيجية المحيط الأزرق:

دراسة لتحديد فهم موظفي البنوك اتجاه تطبيق استراتيجية المحيط

الأزرق

Khouildat salah
tamanrasset university centre.
s.khouildat@yahoo.fr

Abstract

Blue Ocean strategy can help companies to find new market in which they can capture more customers while improving cost structure. The aim of this study is to deeply explain Blue Ocean strategy in order to be easily understood by any banks' managers who want to develop it, and employees who need to apply it. According to the framework of this study to explain the key factors of success of a blue ocean strategy at the banks. In addition, this study tries to find the relation between the blue ocean strategy conception and the performance of the banks, using a representative sample, which is composed of 90 employees work at 5 banks, (BNA, BEA, BARD, CPA, BDL) in Ouargla-Algeria, The results of this study indicated that no relationship between a blue ocean strategy understanding and performance of the banks.

Key words: Blue ocean, Red ocean, Innovation, Eliminate-Reduce-Raise-Create (ERRC) Grid, Canvas Model.

الملخص:

تساعد استراتيجية المحيط الأزرق المؤسسات على إيجاد سوق جديدة تمكنها من جذب العملاء وتحسين هيكل التكاليف، تهدف الدراسة إلى الشرح العميق لإستراتيجية

المحيط الأزرق من أجل أن يكونا سهلا لمديري البنوك الذين يرغبون في تطويره، أو الموظفين الذين يحتاجون لتطبيقه، وفق الإطار النظري للدراسة نحاول شرح العوامل الرئيسية لنجاح إستراتيجية المحيط الأزرق في البنوك، وتحاول الدراسة أيضا إيجاد علاقة بين تلك إستراتيجية المحيط الأزرق وأداء البنوك، وذلك باستخدام عينة ممثلة تتكون من 90 موظف يعملون في 5 بنوك (BNA, BEA, BARD, CPA, BDL بمدينة ورقلة - الجزائر، وأشارت نتائج هذه الدراسة إلى عدم وجود علاقة بين فهم إستراتيجية المحيط الأزرق وأداء البنوك.

الكلمات المفتاحية: المحيط الأزرق، المحيط الأحمر، الابتكار، خلية التخلي-التخفيض-زيادة-خلق، نموذج Canvas.

Introduction :

For the last twenty-five years competition has occupied the centre of strategic thinking. Indeed, one hardly speaks of strategy without drawing on the vocabulary of competition ⁽¹⁾, in this context , there are many authors stated that every company must decide whether its strategy will focus on differentiation or on cost leadership to gain advantage over the competition, ⁽²⁾ Michael Porter the father of management was always believed that company s had two choices: either they created average value at low costs for their customers, or they added greater value at higher costs. Value innovation is the cornerstone of blue ocean strategy, ⁽³⁾ The strategic logic of blue ocean strategy is distinctively different from that of competitive strategy. Blue ocean strategy aims at achieving breakthroughs in value for the buyers and the company by pursuing differentiation and low cost simultaneously, whereas competitive strategy stresses the importance of taking a distinctive position of either differentiation or cost leadership to build and exploit company-specific advantages in a given structural environment. ⁽⁴⁾ On a broader view, In Blue Oceans, competition is irrelevant because the rules of the game are waiting to be set, ⁽⁵⁾ It was represent a vast, deep and not yet explored market space with wide potentialities, Furthermore, this strategy brings a different point

of view to market boundaries for customer group from different sections. Solution for having very crowded and intensely competitive market and difficulties encountered before growth is to create reformist approaches and new areas for growing.⁽⁶⁾

1- Blue Ocean strategy

Blue Ocean Strategy developed by Kim and Mauborgne in 2005 is established upon creating new markets by considering differentiation and low cost all together. This approach supports that fast and profitable growth can be possible through creating demands to new customers in the markets without having competition instead of in the markets having extreme competition and known customers.⁽⁷⁾

According to N.C Ahmet et al, 2015, Blue ocean strategy indicated that as companies try to outperform their rivals to grab a greater share of existing demand, stiff competition in a bloody red ocean has resulted, this contradicted with the blue ocean strategy BOS where companies need to think beyond competing to seize new profit and increase growth opportunities.⁽⁸⁾ Kim and Mauborgne, 2005, explained that Blue ocean strategy focuses on the ability to create new market space where there is no competition and where the demand for the services becomes uncontested.⁽⁹⁾ It should be noted that Kim and Mauborgne, 2005 divide the market universe into two parts: red oceans and blue oceans. "Red oceans" is described as all the industries in existence today which is the known market space. "Blue oceans" refers to all the industries not in existence today which is the unknown market space.⁽¹⁰⁾ More specifically, Thanks to blue ocean strategy, companies create a new undisputed market space where they can fix all the rules, criteria and factors which can influence the market. They innovate and create a value jump which makes competition irrelevant⁽¹¹⁾. Some of the reasons to develop a Blue Ocean Strategy are:⁽¹²⁾

- Supply exceeds demand in lot of industries Globalization
- Price wars
- Low profit margins
- Niche markets disappearance

- Norms and regulations
- Brands are more and more similar so the selection is based on the price
- Commoditization of products and services.

With regard to the content above, we can see a summary of the differences between the two concepts mentioned, in Table 1.

Table 1 : Comparative Of Red And Blue Ocean.

Red Ocean	Blue Ocean
Competition in Current Market area	Creating Market area without competition
Winning in competition	Render competition meaningless
Using current demand for own purposes	Creating and obtaining new demand
Making value-cost exchange	Eliminating value-cost exchange
Differentiate or make all system composed by firm activities comply with strategic choice with low cost	While trying to make differentiation and low cost, making all system composed by firm activities in compliance

Source : Erkut Altındağ, Ömer Samet Kazdal, op, cit, p 42.

The aim of this table is to sum-up the advantages and disadvantages of a blue ocean strategy by comparing Red Ocean and blue ocean focuses. This table points out that red ocean are focus on factors which cannot easily support modifications. On the contrary, everything in the blue ocean strategy makes value-innovation and improvements possible.

2- Historical development of the Blue Ocean Strategy

The principal theory leading to the blue ocean was the value innovation the strategic logic of high growth from 1997, according to the information that each article published by Kim and Mauborgne does not refer exactly to one subject further with each article, but handling of a few relating topics that may lead to the blue ocean strategy, besides, according to Authors' ideas, it can be said that it is expectable that also the Blue Ocean Strategy may be improved and modification over a specific period of time, by the creators themselves or other

researchers. the development of the Blue Ocean Strategy and which academic articles led to the framework shown in the table below:

Table 2: Historical of the Blue Ocean Strategy

Year of publication	title of the article
1997	Value Innovation – The Strategic Logic of High Growth
1998	Procedural Justice, Strategic Decision Making and the Knowledge Economy
1999	Creating New Market Space
1999	Strategy, Value Innovation, and the Knowledge Economy
2000	Knowing a Winning Business Idea When You See One
2002	Charting Your Company's Future
2003	Tipping Point Leadership
2004	Blue Ocean Strategy

Source: Kim, W. C. and Mauborgne, R., 2004.

3- Importance of the blue ocean strategy

Company in the Blue Ocean extends and achieve to more successes, more and more companies and organizations try to enter this market. Thus, the issue of creation barriers is considered very important to entry of new competitors and suppliers of imitation, according to Kalkan and Alparslan 2009, Blue Ocean Strategy align seven principle below required to embrace by the managers:⁽¹³⁾

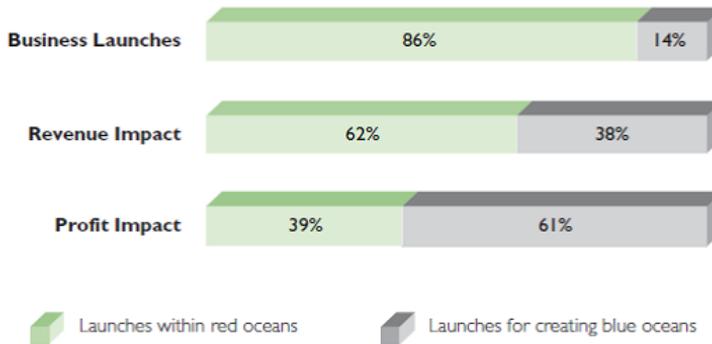
- Re-establishing the market boundaries,
- Not focusing on numbers,
- Constructing implementation,
- Designing quality level of each activity in value chain,
- Reaching beyond demand,
- Overcoming key obstacles,

- Obtaining accurate strategic order by using an extreme leadership style.

4- The Blue Ocean Paradox

Kim and Mauborgne set to quantify the impact of creating blue ocean on a company's growth on both revenues and profits in a study of the business launches 108 companies, Kim and Mauborgne found that 86% of the launches were line extensions, that is incremental improvements within the red ocean of existing market space, yet they accounted for only 62% of total revenues and 39% of total profits, the remaining 14% of the launches were aimed at creating blue ocean, they generated 38% of total revenues and 61% of total profits, given that business launches included the total investment made for creating red and blues oceans, the performance benefits of creating blues waters are evident (14), Although the authors don't have data on the hit rate of success of red and blue ocean initiatives, the global performance differences between them marked, These statements can be also found in Figure 1 below:

Figure 1. the profit and growth consequence of creating blue ocean



Source: Kim, W. C. and Mauborgne, R., 2004, op cit.

This paradox seems to be very appealing especially on businessmen, who are always looking for ways to increase their revenues and profits.

5-The cornerstone of blue ocean strategy (BOS)

Matthews and Shulman, 2005 noted that an innovation play the critical role to create new markets for existing products and new products for existing markets and increase the use of technologies (15), thus, many researchers considered that The key aim of blue ocean strategy is to create value innovation – driving costs down while simultaneously driving value up for buyers, Value innovation is the cornerstone of blue ocean strategy, furthermore, Successful innovation provide a unique feature to the company that the competitors do not have this feature. Types of innovations , including, product innovation , process of engineering design , research and development , production , management and necessary operations for the marketing of new products or services (or improved) or the selection and development of new products.

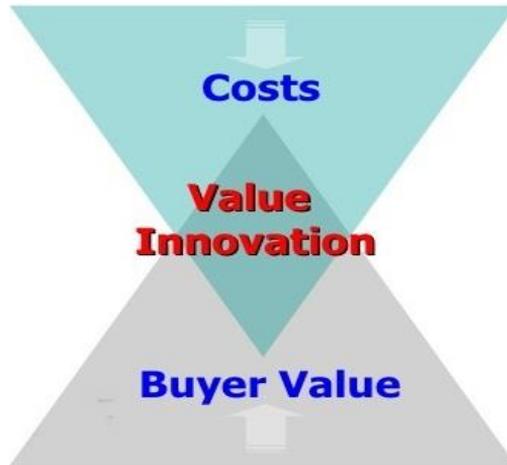
Based on the vision above, we can show the definition of innovation according to blue ocean strategy through The following equations: ⁽¹⁶⁾

Equation N1 Value to buyer = offering utility – offering utility's price

Equation N2, Value of the company = offering's price – offering's price's cost

It should be noted that, value innovation has a positive affects on companies' cost structure and its offer. Moreover, on one hand, an economy of scales is carried out due to the limitation or expulsion of requirements. In other words, the value for the buyer is shown by creating new criteria or adjusting the old ones.

Figure 2. Value-innovation: The cornerstone of BOS



SOURCE: Kim, W. C. and Mauborgne, R., 2004, op cit.

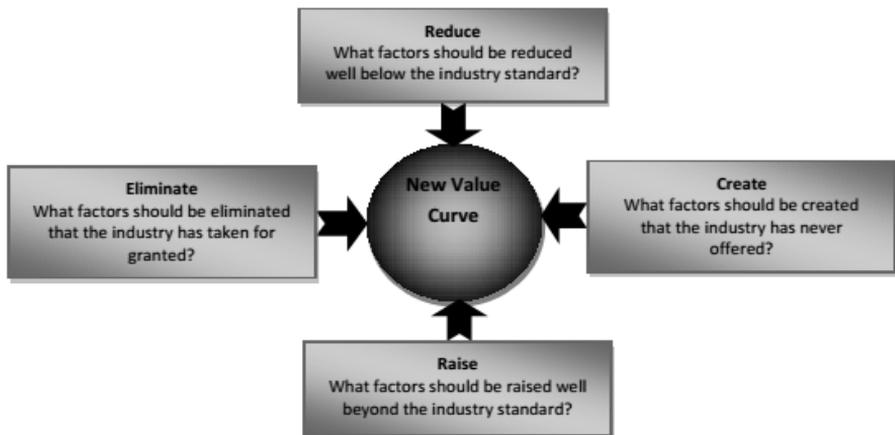
So, Value innovation is created in the region where a company's actions favorably affect both its cost structure and its value proposition to buyers, Cost savings are made by eliminating and reducing the factors an industry competes on, Buyer value is lifted by raising and creating elements the industry has never offered. Over time, costs are reduced further as scale economies kick in due to the high sales volumes that superior value

generates. in the context of value innovation, Kim and Mauborgne,2004, compared the two strategic logics of conventional logic and value innovation logic, While the conventional logic describes the traditional market, the value innovation logic represents the new options for a company, Both strategic logics will be used in an advanced form as the Blue- versus Red-Ocean-Strategy table, which summarized the most important characteristics and challenges of the red and blue ocean markets.⁽¹⁷⁾

Kim and mauborgne, 2005 noted that there are four-dimension framework is an analytical tool where the management team systematically establishes a new value curve, The first dimension is to eliminate factors which are below the

industry standard making bound long term unnecessary cost to the firm despite having no meaning in earning profits or value. Next is to reduce factors that are industry below standard. Thirdly, firms have to raise those factors that are industry above standard having valuable meaning to customers. The rest are those factors to be created which the industry never offered that can create new customer demand for goods. Thus, applying the Eliminate-Reduce-Raise-Create (ERRC) Grid is appropriate to identify new Blue Ocean market, It pushes firms to create new value curve,⁽¹⁸⁾ In part of leadership, The Blue Ocean Grid is an “analytic tool that challenges people to think about which acts and activities leaders should do less of because they hold people back, and which leaders should do more of because they inspire people to give their all”.⁽¹⁹⁾

Figure 3: the Eliminate-Reduce-Raise-Create (ERRC) Grid



Kim, W. C. and Mauborgne, R., 2004, op cit.

Based on the Figure above, We can say, The Eliminate-Reduce-Raise-Create (ERRC) Grid, gives companies four immediate benefits, i) It pushes them to simultaneously pursue differentiation and low cost to break the value-cost trade off, ii) It immediately flags companies that are focused only on raising and creating and thereby lifting the cost structure and often overengineering products and services – a common plight in many companies, iii) It is easily understood by managers at any

level, creating a high level of engagement in its application, iiiii) Because completing the grid is a challenging task, it drives companies to robustly scrutinize every factor the industry competes on, making them discover the range of implicit assumptions they make unconsciously in competing. According to Kim and mauborgne, 2004, the Eliminate-Reduce-Raise-Create grid linked with Three characteristics of a good blue ocean strategy: ⁽²⁰⁾

- **Focus:** a company does not diffuse its efforts across all key factors of competition.
- **Diverge:** diverge from the other players’.
- **Compelling:** Tagline strategic profile is clear; a fun and simple to follow (enjoy).

6- Tools Of Blue Ocean Strategy Analysis

Th Strategy Canvas is an analytical tool that is part of the Blue Ocean Strategy which allows companies to build a compelling strategy around a business concept. Th horizontal axis depicts the factors that the industry competes on, and the vertical axis captures the level of offprings for each of these factors,⁽²¹⁾ strategy canvas illustrates the situation on the given market and defines the position of different products. The core element of this concept is the value curve. This curve is a graphic illustration of a company’s relative performance across its industry’s factors of competition.

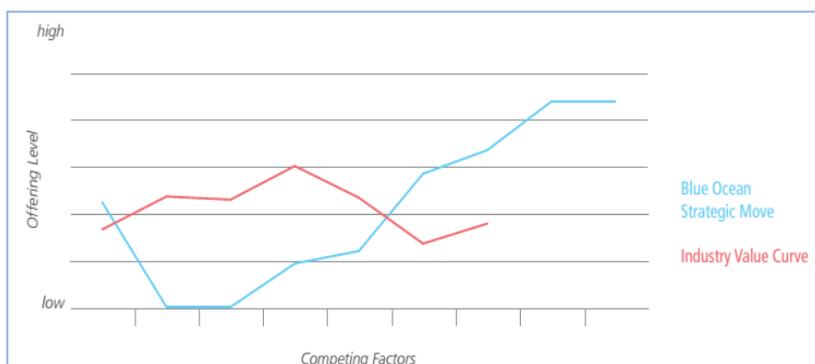
According to Kim and Mauborgne (2004), strategy canvas is used like a The tool helps designing value curves, he value curve is the core component of the strategy canvas. It is the visual definition of an organizations performance within the industry. A well defined value curve is described with focused, divergences but also having a compelling tag line, ⁽²²⁾ The strategy curve has two main purposes:⁽²³⁾

- Firstly, it provides an insight into the current state of the known market. This allows companies to understand where the competition is investing and what factors the competition currently competes on.

- Secondly, it drives you to differentiate yourself from competitors and reorient your focus from customers to non-customers.

Figure 4: The Strategy Canvas Model.

Source : Kim, W. C. and Mauborgne, R., 2004, op cit.



Based on the figure above we can say, The key factors used in the strategic canvas, such as price, performance or unique venue; are derived from an organizations investment in resources, processes and capabilities, Furthermore, the key factors involve strategic choices and impact strategic purpose, It is significant to know the key elements, therefore an organization should invest in research and analysis inside and outside the company. Behalf of that the communication and interactions with customers about the product, service, and delivery may grant the organization additional qualitative and quantitative data or information. After the determination of the key elements was determined, ratings are given to the researched elements. The ratings may be for example on the scale of relatively low, low, medium, high, relatively high.⁽²⁴⁾

RESEARCH METHODOLOGY

Data Analysis and interpretation is an important step for any researches, Data from various sources are gathered, reviewed and analysed to arrive at the conclusion.

1- Data source: The data has gathered through primary and secondary sources in order to answer the research question. The primary data will be collected through in The survey, employees

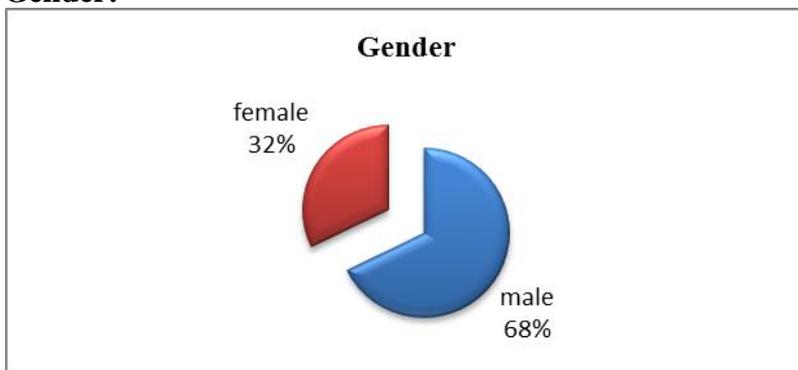
were asked to answer two important part, part A, Demographic Profile of the employees, includes gender, age, education and occupation, part B contains 10 questions on blue ocean strategy, and how the employees understand that strategy, and how the companies practice the tools of blues ocean in its strategies.

2- Sampling: this research targeted 90 employees in 5 banks at ouargla, as a sample using a questionnaire as a tool of data gathering and collection.

3- Objectives: The research purpose is to discover tendencies of bank's employees towards blue ocean strategy and to understand the importance given to blue ocean as a strategic approach.

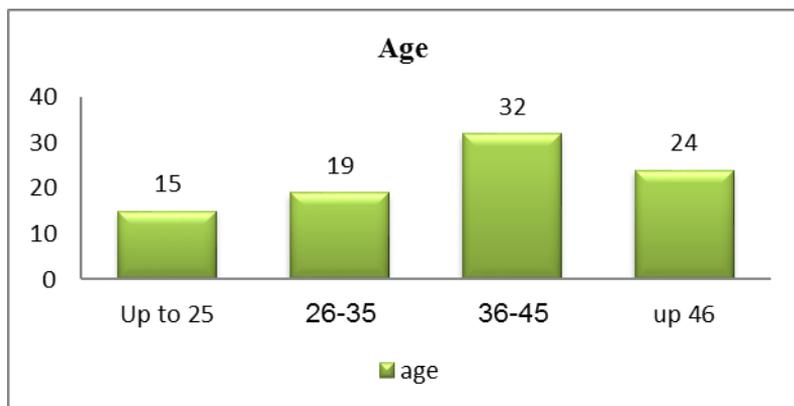
4- Demographic Profile of the employees

- Gender:



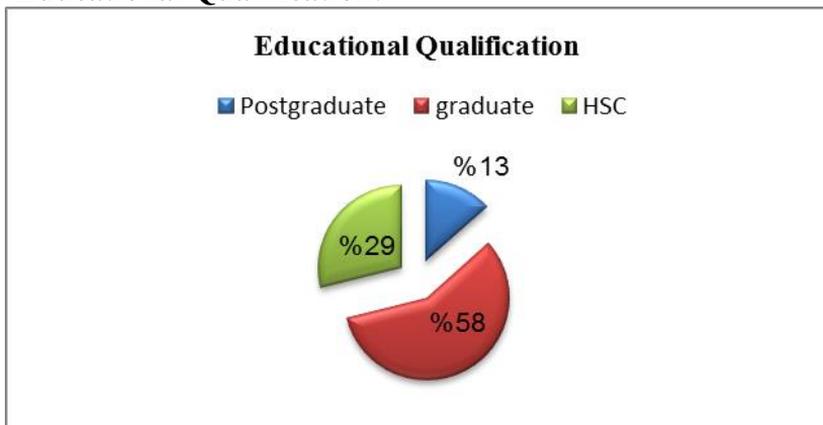
The profile of employees has given the information that, overall 68% male and 32% female.

- Age:



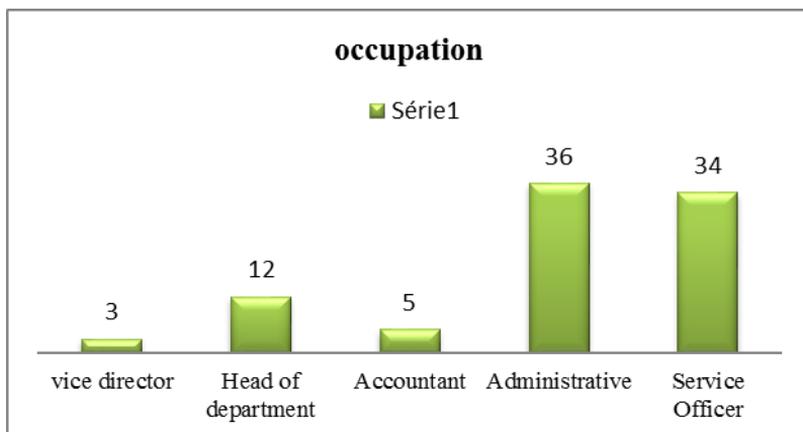
The profile of the employees has given an indication that, 35% of the employees of the banks from the age 36-35, whereas the 27% from the age group of up 46, and 21% of employees from the age of 26 – 35, the last category was 17% from the age up to 25.

- Educational Qualification:



from the profile of the employees we found out that, most of the employees who were interviewed are educated (Graduate/ Post Graduate), Postgraduate 13%, Graduate 58%, whereas 29% of the employees have HSC level.

- Occupation:



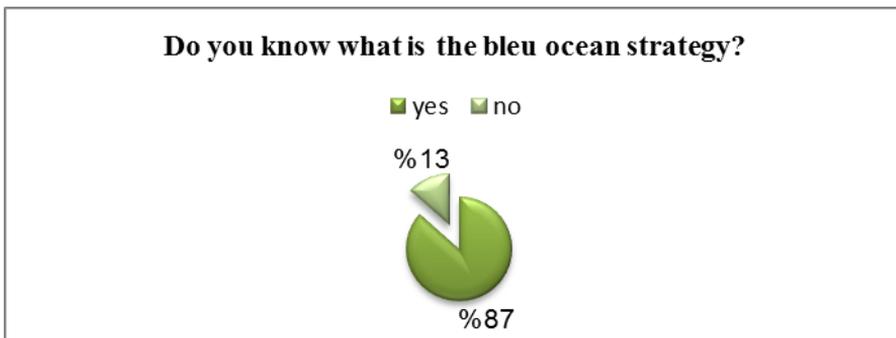
The profile of the employees has indicated that most of them who participated in the survey are Administrative (36) and service officers were (34). Very few employees who are head of a department (12) have participated in the survey. Further to this, 5 of employees are accountants, and 3 of employees are vice director.

5- Findings And Analysis:

This survey is conducted from those employees who are working at the banks in ouargla province, they have some information about business strategies and role of competition, The survey purpose is to find out the main vision of blue ocean strategy and how do employees of the bank understand it? and how do banks practice that strategy?

Question 1: Do you know what is the bleu ocean strategy?

The reason to include this question is to determine the knowing of the blue ocean strategy The survey result shows that 87% of the banks employees do not know what is the blue ocean strategy, and rest 13% of they perhaps know about blue ocean strategy.



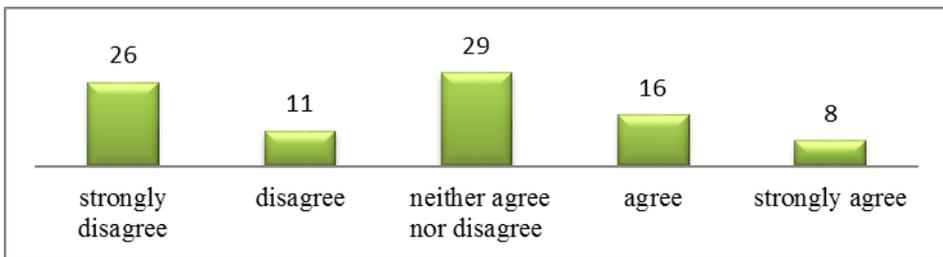
Question 2: bleu ocean strategy is?

Survey result shows, that the most employees have seen that the blue ocean strategy is marketing strategy, whereas, 22 of the employees have seen that the blue ocean strategy is production strategy, While, 19 of the employees saw that the blue ocean strategy is competitive strategy, 15 of the employees of the banks don't have any information about blue ocean strategy.



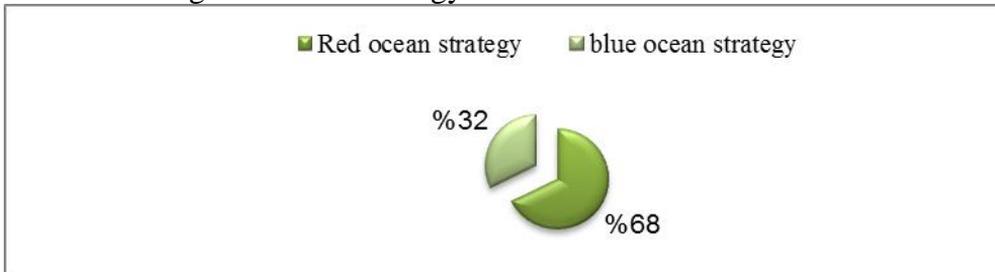
Question 3: blue ocean strategy helps the banks to create a new undisputed market space where they can fix all the rules, criteria and factors which can influence the market?

Employees were asked about the definition of the blue ocean strategy, Results shows that 29 they neither agree nor disagree on the definition, 26 employees do not disagree on the blue ocean strategy definition, we can say just 8 of the employees have a strongly agree.



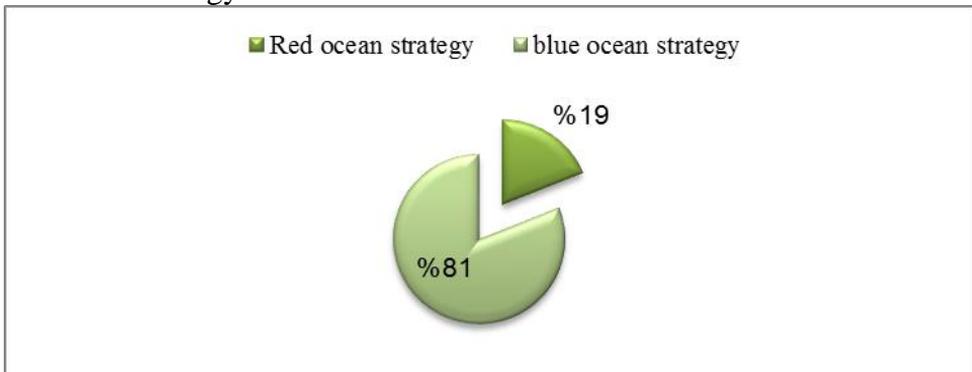
Question 4 : Which strategy your bank is using? RED Or BLUE

After we explained what does mean red ocean and blue ocean, we asked about which strategy your bank is using presently, results show that 68% employees have seen their banks are using just Red ocean strategy, 32% employees said that their banks are using blue ocean strategy.



Question 5: under the current situation of the market, which strategy do you prefer?

According to this question, we can say, 81% employees preferred the blue ocean strategy, just 19% employees preferred red ocean strategy.



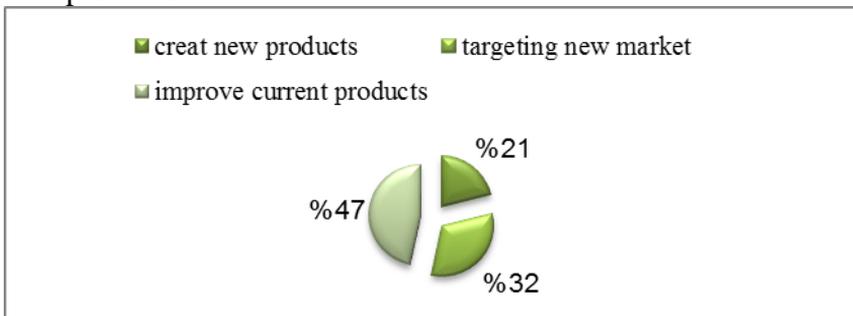
Question 6: do you Think that blue ocean strategy focus on analysis of the external environment or internal strategy or BOTH?

At this question, the employees have some knowledge about the environment of the banks, results show that 41% employees have seen that blue ocean strategy focuses external environment analysis, 31% employees said that blue ocean strategy focuses on internal environment analysis, and just 28% employees of the banks have seen that blue ocean strategy focuses on an analysis of the external and internal environment.



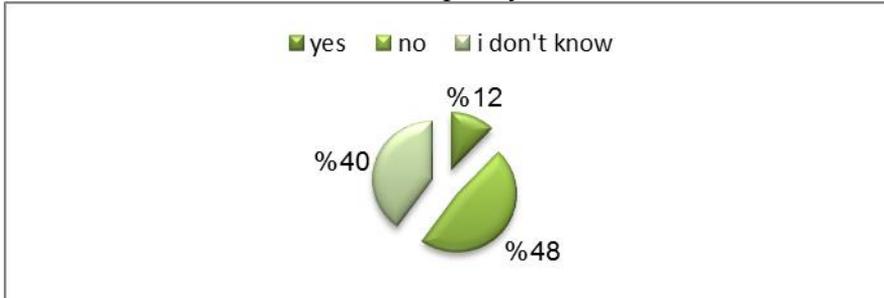
Question 7: overall, if we suppose that your bank is using the blue ocean strategy, that can be contributed?

The employees were asked about the contribution of the blue ocean strategy, 47% employees answered that blue ocean strategy contribute to improve a new products, 32% employees said that blue ocean strategy can be targeted a new market, 21 % employees have seen that blue ocean strategy can be created a new products.



Question 8: do you think that your bank can practice the Eliminate-Reduce-Raise-Create (ERRC) grid?

The purpose of this question is to find out the response of employees to ERRC grid perception, According to findings 12% of employees have seen that their bank is using ERRC grid policy, 48% said that their banks do not use ERRC grid policy, while 40% don't know about this policy.



Question 9: Do you believe, if your bank analysis the market, and design a perfect canvas that can help to create a competitive advantage?

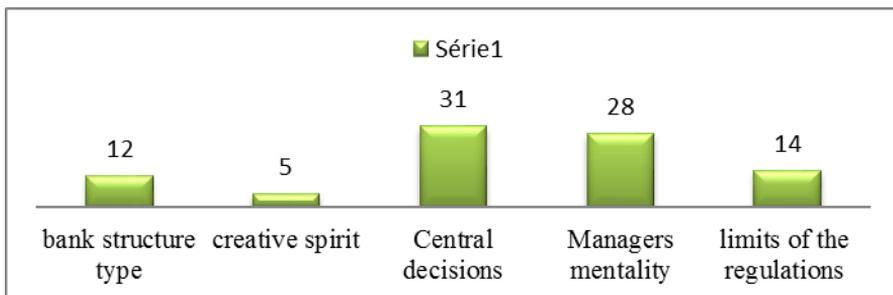
The result shows that 52% employees have seen there is no relationship between the process of the market analysis and canvas designing, and a competitive advantage, whereas, 25% employees said there is a strongly relationship between the process of the market analysis and canvas designing, and a competitive advantage, just 23% employees don't know.



Question 10: there are lot of challenges faces the processes for practicing the blue ocean strategy at the bank, among those challenges, there is ?

researcher try to check the main factors that influence on practicing of blue ocean strategy at the banks, The result shows that most of the employees (31) said that the central decision

impact on the blue ocean strategy at the algerian banks, 28 of the employees have seen that the managers mentality that influences on practicing the blue ocean strategy, while 14 of the employees said that limits of the regulation are influencing on using the blue ocean strategy at the banks.



Conclusion:

In conclusion, many factors have increased the need for better strategy as companies target many markets in national and international, they need a competitive strategy on small or larger, more distant markets as income increase and buyers become more selective, companies need blue ocean strategy which helps to answers about how customers respond to their different products. As companies use more competition, they need to practice blue ocean strategy, that strategy maybe has the effectiveness of their entire strategy.

Based on the findings of the survey, it was concluded that the blue ocean strategy at the banks has no significant impact on its strategies or consumers, the employees have not any idea about using of blue ocean strategy like a competitive strategy, some employees heard about this strategy and read about it, but they have said, that strategy is not well being to the Algerian banks, and the situation of a financial market doesn't help to use like that strategies.

According to survey results, it should be noted that no relationship between blue ocean strategy and the performance of the banks, because these banks are working under a Centralized plans, besides, the organizational system does not help to create

an add values for the banks and their consumers, we can also say a business environment is non-competitive.

Recommendations:

Managers or directors at the banks should continuously develop blue ocean strategy to create a new market and new products, under blue ocean strategy banks can offering better financial services and also by offering value added services and getting the trust to their consumers, if they want to gain a competitive advantage at their financial market, the banks should go for fair services and prices policy with no hidden of features or charges, Today is the era of competition. Only by adopting innovative technology a bank can survive in market. banks should try to focus on providing better financial products to their clients, and also should not ignore to expand the markets, competitive strategies, clients needs as well.

REFERENCES:

- (1)T. Ver loren van themaat et al, designing a framework to design a business model for the ‘bottom of the pyramid’ population, south african journal of industrial engineering november 2013 vol 24(3): pp 190-204.
- (2)Porter, m.e. 1987. From competitive advantage to corporate strategy. Harvard business revue, 65(3), 43-59.).
- (3)kim, w.c. & mauborgne, r. 2005. Blue ocean strategy. Boston, ma: harvard business school press.
- (4)j i m i, bl ue ocean strat egy, wile y e ncylopedia of management, 2014, p 1.
- (5)Stefano corlianò michele loperfido ,valorising the potentiality of new (and existing) technologies by identifying new applications, master degree, faculty of industrial engineering, politecnico di milano, 2012/2013, italy, p 48.
- (6)Erkut altindağ, ömer samet kazdal, the effects of chaos theory, six sigma and blue ocean approach on firm performance at family firms: an empirical study in turkey, american journal of business and management vol. 3, no. 1, 2014,, p 42.

- (7)Ibid.
- (8)N.C. Ahmat et al, blue ocean strategies in hotel industry, taylor&francis group, London, 2015, p 43.
- (9)W. Chan Kim, Renee Mauborgne, Blue Ocean Strategy How to Create Uncontested Market Space and Make the Competition Irrelevant, p 2, available at: www.blueoceanstrategy.com.
- (10) Wang Zhao, Yang Jinwei, Application of Blue Ocean Strategy to Chinese 3G Mobile Telecom Industry, Thesis of Master of Science in Business Administration, blekinge tekniska hogskola, p 7.
- (11)Guillaume Nicolas, The evolution of strategic thinking and practices: Blue Ocean Strategy, Master's in Leadership and Management in International Context, school of business and economics, Linnaeus university, Sweden, 2011, p 18.
- (12)Ibid.
- (13) Erkut Altındağ, Ömer Samet Kazdal, op, cit, p 42.
- (14)Kim, W. C. and Mauborgne, R. (2004); "Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant"; Harvard business review; October 2004; p71 -81.
- (15)Matthews, J., and Shulman, A. D., (2005). "Competitive advantage in public – sector organizations: explaining the public good / sustainable competitive advantage paradox," Journal of Business Research, no. 58 (2), pages: 232 – 240
- (16)Guillaume Nicolas, op, cit, p 19.
- (17)Dmitrij Kabukin, Reviewing the Blue Ocean Strategy Is the Blue Ocean Strategy valid and reliable?, Masterthesis Business Administration Innovation & Entrepreneurship University of Twente, 2014, p 20.
- (18)Samsul Alam, Mohammad Tariqul Islam, Impact of Blue Ocean Strategy on Organizational Performance: A literature review toward implementation logic, IOSR Journal of Business and Management, Volume 19, Issue 1. Ver. III (Jan. 2017), p 10.

- (19) Kim, W. & Mauborgne, R. Blue Ocean Leadership: How to engage your employees and stop wasting everyone's time. Harvard Business Review, 2014, May, 61 -70..
- (20) Jason C. H. Chen, blue ocean strategy: the four actions framework, p 2, available at: barney.gonzaga.edu/~chen/mbus626/chapters_pres/Four_Actions_Framework.pdf.
- (21) daniel vester , synthesizing the blue ocean, School of Arts, Design and Architecture Aalto University April 2012, p 29.
- (22) Kim, W. C. and Mauborgne, R. (2004); "Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant"; Harvard business review; October 2004; p71 -81
- (23) Ibid.
- (24) Dmitrij Kabukin, op, cit., p 32.