Blue Ocean Strategy: A Preliminary Literature Review and Research Questions Arising

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Abstract: This paper presents a preliminary literature review of previous and current research in the field of strategy. Its purpose is to identify a research theme and related issues in the existing literature for further research. The preliminary literature review concentrates on management papers in international refereed journals using the literature databases of Emerald, ProQuest Direct, ScienceDirect and Wiley Interscience. The articles are selected based on the keywords “Strategy” or “Strategic Management” or where the articles’ title includes one of these compound terms and later the articles are chosen based on the selected research theme, namely “Blue Ocean Strategy”. From this preliminary literature review, blue ocean strategy is identified as one of the recent research themes that worth further studies. Further review of the current literature on blue ocean strategy reveals a series of related issues that establish the basis for the research agenda and identifies the main research question as well as sub-questions for further research. The paper proposes the research objectives based on the research questions and provides a direction and the justification for future research.

Key words: Blue Ocean Strategy, Strategy, Value Innovation

INTRODUCTION

“Strategy” has always been one of the critical issues on the management studies, and the term is used ever more at different levels in various fields; so much so that it means “everything but ultimately nothing” (Chaharbaghi and Willis, 1998). In this context, there is growing interest in the propagation of the concept of strategy and a great variety of themes have been used to explain the concept by management gurus, consultants and academics. In order to explore the opportunities for future research on strategy, it is necessary to trace its origins and evolution and to review its latest progress.

This paper is concerned with providing an initial literature review based mainly on the management literature particularly in the field of strategy. The main objective of the paper is to revisit and review the previous and current literature on strategy research with the intention of identifying a theme for further research. To meet this objective, the second section begins with a discussion on the definition of strategy, the diverse views of strategy, and why strategy has become central to contemporary management studies, followed by a review of earlier works and recent trends in strategy research. Subsequently, blue ocean strategy is chosen as the theme for further research and the related issues with the existing research on that theme are discussed. The third section details some research questions that arise from the earlier discussions and these research questions will form the basis for further research. Lastly, the paper concludes with the proposed research objectives as well as the direction and importance of future research.

Preliminary literature review:

2.1 Defining strategy:

Strategy has become the central focus in management literature and the business world for the past few decades. However, there is still no consensus and universal definition of strategy at this time (O’Regan and Ghobadian, 2002). Mintzberg (1978) defines strategy as a sequence of top management decisions that show a consistency or pattern over time. However, he views strategy as a phenomenon with various meanings. Therefore, he proposes five interconnected definitions for strategy that explicitly interpret its multiple meanings.
to help people negotiate this difficult field (Mintzberg and Quinn, 1991). Mintzberg’s five definitions for strategy are plan, ploy, pattern, position, and perspective. Ansoff (1984), on the other hand, regards strategy as a means to an end, seeing it as a set of decision-making rules to guide organizational behavior. In Ansoff’s view, the objectives represent the end that the company intends to achieve and strategy is the means to this end. He interprets strategy as a set of guiding rules (e.g., objectives, goals, concepts, rules, and policies) to deal with the micro and macro environments and treats it as a sophisticated phenomenon. Likewise, Chandler (1962) asserts that strategy is the determination of the primary goals and objectives of a company and the implementation of an action plan for achieving these goals, and some researchers regard strategy as a rational decision-making process in allocating company’s resources to match opportunities arising from the business setting (Andrews, 1965; Aldrich, 1979). In brief, strategy can be defined as a blueprint or game plan that shapes the long-term direction, business objectives, and market position of the company to facilitate the implementation of an action plan for achieving these goals, and some researchers regard strategy as a rational decision-making process in allocating company’s resources to match opportunities arising from the business setting (Andrews, 1965; Aldrich, 1979). In brief, strategy can be defined as a blueprint or game plan that shapes the long-term direction, business objectives, and market position of the company to facilitate the setting (Andrews, 1965; Aldrich, 1979). In brief, strategy can be defined as a blueprint or game plan that shapes the long-term direction, business objectives, and market position of the company to facilitate the

2.2 Background and recent trends:

Many organizations began to adopt the concept of strategy into their businesses after World War II. The main theme of strategy during that period was based on sales forecast and operational budget in relation to coping with the rapidly growing economies and rising consumer demands. The key success factor of organizations was largely dependent on the market knowledge and competencies of the top management team (Gluck et al., 1980).

In the 1960s, organizations exercised planning, including environmental analysis, multi-year forecasts and resource allocation with a longer time horizon, in response to the drastically increasing demands (Gluck et al., 1980). The prominent contributors to the strategy literature at that point in time included Chandler (1962), Andrews (1965), and Ansoff (1965). Chandler (1962) explained how the development of large organizations corresponded to how their organizational structures changed to meet the demands drive from management in relation to business growth. Based on Chandler’s work, Andrews (1965) asserted strategy as a set of clear direction that defined a company’s businesses and activities. He also introduced the SWOT (Strength, Weakness, Opportunity and Threat) analysis framework to support companies analyzing their external and internal environment for strategy making. The contributions of Chandler and Andrews formed the basis of what could be termed the “design” school (Mintzberg et al., 1998). However, in Ansoff’s (1965) perspective, simply setting clear corporate objectives was not sufficient on its own, and he prescribed a set of decision-making rules to formalize the strategic planning process.

Essentially, the study of strategic planning reached its highest point in the early 1970s, yet the weaknesses of the prescriptive approaches to strategy formulation and implementation were exposed when facing environmental uncertainty including the oil crisis and rising international competition of the emerging giant corporations from Europe and Japan during that period (Stacey, 1993). Mintzberg (1978), for example, pointed out that some planned strategies failed to realize their intended outputs owing to both internal and external variables; however, other successful strategies might emerge informally in the form of unintended patterns through the learning process in response to evolving reality. Therefore, strategy formulation could be considered as the interface between a variety of forces derived from the business environment and the impetus developed by an organization, and strategy formation tends to follow the life cycles eventually.

Despite its shortcomings, the prescriptive school of thought continued to progress in the 1980s with an emphasis on the effective use of all the company’s resources to attain competitive advantage, and the most influential author was none other than Michael Porter (1980, 1985). His analytical frameworks, including five forces analysis, the value chain, and generic competitive strategies, were widely acknowledged by both academics and practitioners. Mintzberg (1990) referred to Porter’s works as the “positioning” school because he was focused strongly on a company’s strategic positioning in the economic marketplace, and this approach still dominates in the field today. However, Bartlett and Ghoshal (1991) criticized Porter’s works for narrowing the focal point in the field without an adequate understanding of the internal processes.

In the 1990s, numerous scholars contended Porter’s works by arguing that competitive advantage was built on a company’s superior resources, competences, and capabilities, rather than on choice of industry and the gaining of market power; this is known as capability building theory. This school of thought had three main branches, namely the resource-based view (Wernerfelt, 1984), core competences (Prahalad and Hamel, 1990),
and dynamic capabilities (Teece et al., 1997), which drew on the analogous basic concepts. However, capability-building theory is inherently rigid by nature, so a company cannot easily embrace swift, radical, and repeated change in a turbulent environment (Cohen and Levinthal, 1990; Lengnick-Hall and Wolff, 1999). For this reason the basic element of competitive advantage under capability-building theory is well-matched to calmer and slower environmental change (Chakravarthy, 1997). In view of that, capability-building theory has been further enhanced to integrate dynamic capabilities along the asserted trail by focusing mainly on the learning processes that permit companies to reconfigure their resources to adapt in fast-changing environments (Helfat, 2000).

Recent literature on strategy also acknowledges a different approach to strategy making, namely blue ocean strategy (Kim and Mauborgne, 2005). Kim and Mauborgne (2005) use “blue ocean” to describe all of the markets that do not yet exist, and the strategizing to create demand and make competition irrelevant for large and fast profit margins is termed blue ocean strategy. The long-dominant competitive strategy suggested that the focal point of strategy is competition and competitive advantage is the answer to sustain superior performance. However, because of overcrowded supply and declining demand, these days there is only limited room for real growth. Therefore, instead of focusing on the competition in existing markets, blue ocean strategy posits value innovation to create uncontested market space and break away from the competition to achieve highly profitable and sustainable growth. Value innovation is the cornerstone of blue ocean strategy, which means pursuing differentiation and low cost simultaneously to create a leap in value for both buyers and company to break from the competition and create new customer demand and uncontested market space. This concept is based on the reconstructionist view that asserts market boundaries and industry structure can be reshaped by the activities and beliefs of industry players (Kim and Mauborgne, 2005). Theoretically, the concept of blue ocean strategy is firmly grounded on a study of 150 strategic moves made by companies in a range of industries. However, there are only a few empirical studies being conducted to support the validity and practicality of blue ocean strategy (e.g. Burke et al., 2009; Aspara et al., 2008; C. Kim et al., 2008).

2.3 The Emerging Theme in Strategy Research:

The concepts of strategy in business setting have been the subject of intense debate in recent years (Hafsi and Thomas, 2005). Despite these disputes, one of the most important contributions of strategy research is to provide a framework to help support and guide managers to craft a strategy for their companies. Therefore, strategic knowledge is intended to be actionable knowledge (Jarzabkowski and Wilson, 2006). Over the years, a large number of strategy tools and methodologies have been developed by researchers to facilitate managers to carry out formal strategic planning for their companies: PEST (Political, Economic, Social, and Technological) analysis, Porter’s five forces analysis, SWOT analysis, etc. According to Pun (2003), using specific strategic planning methods and models independently would result in different strategic consequences and decisions.

However, Kim and Mauborgne (2002) claim that typical strategic planning tools fail to make effective use of visual methods that can clarify crucial points for most managers. For that reason, Kim and Mauborgne (2005) developed an analytical tool, known as the strategy canvas, to portray the strategic profile or value curve of a company against that of competitors by plotting the various factors that affect competition in the industry in a graphical chart. However, since the competing factors exhibited in the strategy canvas are merely derived from managers’ observations in the field, the strategy canvas is therefore simply drawn based on managers’ judgments and intuitions rather than on hard information and analytical data. Therefore, the strategy canvas is generally regarded as a qualitative analytical tool for blue ocean strategy formulation.

In view of that, blue ocean strategy becomes one of the emerging themes in the field of strategy research as it has inspired intense debate and discussion and some empirical and theoretical works have been recently published in academic conference papers and journals.

2.4 The related research problems and issues in blue ocean strategy:

Kim and Mauborgne’s works have been criticized for being descriptive rather than prescriptive because they show many case studies of successful innovations and then interpret the success stories from their perspective (Webber, 2005). Raith et al. (2007) note that while strategy canvas seems practical but mainly for ex-post diagnosis and explanation of successful blue ocean strategy in various descriptive case studies only. They point out that the blue ocean strategy-making process from an ex-ante perspective remains unclear as so far there is no detailed explanation of how exactly a blue ocean strategy is crafted. For example, the blue ocean strategy process developed by Kim and Mauborgne (2005) does not reveal how to assess the offering level of the competing factors for the company and its competitors in a clearly defined manner, yet value curve
is the fundamental component of the strategy canvas. The conceptualization of blue ocean strategy still appears to lack a formulated theoretical foundation (Aspara et al., 2008).

To this end, Raith et al. (2007) propose a decision-analytic approach to blue ocean strategy development by using quantitative methodology to measure the strategic profiles in the strategy canvas derived from the ex-post strategy diagnosis. They explain that the various competing factors in the strategy canvas can be interpreted as attributes of the offered products and those factors can be valued and weighted differently by customers using standard multi-attribute rating methods or conjoint analysis. Blue ocean strategy can then be derived as the optimal choice from the preceding market analysis. Subsequently, a sensitivity analysis can be performed to test the robustness of the strategy in relation to changes in the relevance of strategy factors and their values. However, this approach never reveals how to identify the competing factors in an analytical and statistical method. Moreover, no empirical study was conducted by Raith et al. (2007) to validate their proposition.

More lately, S. Kim et al. (2008) and Khalifa (2009) have conducted empirical studies in an attempt to quantify the strategy canvas by adopting different analytical and statistical approaches. S. Kim et al. (2008) apply ERRC (Eliminate-Reduce-Raise-Create) grid and Quality Function Deployment (QFD) to a matrix model and transform it into a software package known as Value Innovation Requirements Engineering (VIRE) to identify, analyze and validate new customer values for product design and development. Khalifa (2009) conducted a related survey study to measure the subjects’ perceptions of the offering level of the competing factors with the t-test, using the score of those competing factors to construct the strategy canvas. However, both of these studies seem to focus mostly on customers, while other related stakeholders are somewhat overlooked. Moreover, these studies only focus on particular elements of the blue ocean strategy development process. For instance, S. Kim et al. (2008) are mainly concerned with value innovation requirements at the product level, while the survey carried out by Khalifa (2009) is only part of an experiential exercise attempting to draw a strategy canvas quantitatively. In other words, the finding of the empirical studies carried out by S. Kim et al. (2008) and Khalifa (2009) only partially support the decision-analytic approach to blue ocean strategy formulation proposed by Raith et al. (2007).

Even these studies have partially proposed or proven the use of a quantitative approach to construct the strategy canvas. However, these studies are unable to clearly operationalize the decision-analytic approach to the blue ocean strategy formulation because neither study reveals how it identified and validated the competing factors in detail. Given all of the above considerations, a conceptual model is required to identify and quantify the competing factors in the strategy canvas to enhance the validity of the existing blue ocean strategy process.

**Research questions arising:**

The resulting research issues drawn from the earlier discussion map out an agenda for further research in order to identify and quantify the competing factors in the strategy canvas with an analytical and quantitative approach to enhance the validity of the existing blue ocean strategy formulation process and to test it by conducting an action research case study in a company. In view of that, the research questions will focus on showing its relationship with the intention of this study and also revealing the relationships to the research methodology. The research methodology chosen for this study is action research case study which employing both qualitative and quantitative approach for data collection. Accordingly, the main research question is formulated as follows:

What structural components are significant in developing the conceptual model for the identification and quantification of the competing factors in the strategy canvas? What method should be adopted to operationalize the conceptual model?

In order to answer the main research question it is necessary to first answer the following sub-questions:

- What competing factors are considered valid in the strategy canvas?
- What determines the offering level of the competing factors in the strategy canvas?
- How can the strategic profiles (value curves) be constructed through identification and quantification of the competing factors in the strategy canvas for the blue ocean strategy formulation process?
- How can the applicability and validity of the blue ocean strategy formulation process be concluded?

**Conclusions:**

The initial review on strategy literature has considerably identified blue ocean strategy as the research theme and its related issues has been critically reviewed and discussed to propose a series of research questions to form a basis for the further research. Therefore, the next phase in the research agenda will be to propose the research objectives and directions for future study.
4.1 The objectives of future research:

The main objective of future study is to develop a conceptual model to operationalize the analytical and quantitative approach to blue ocean strategy formulation and to test it with a case study. In addition, the following objectives are to be achieved:

- To identify and validate the competing factors in the strategy canvas with an analytical approach.
- To quantify the competing factors in the strategy canvas for blue ocean strategy formulation.
- To develop a conceptual model to enhance the existing blue ocean strategy formulation process with the analytical and quantitative approach.
- To conduct a case study in a company to empirically test the applicability and validity of the conceptual model.

4.2 The directions of future research:

The directions of future study will be to develop the conceptual model for the blue ocean strategy development process by adopting the analytical and quantitative approach to validate the competing factors and determine its offering level in the strategy canvas through further review of the relevant literature. In addition, the empirical part of future research involves a case study to test the applicability of the conceptual model. In short, the central issue is about the identification and quantification of the competing factors in strategy canvas. More specifically, the future study aims to validate the existing blue ocean strategy formulation process by developing a conceptual model to identify and quantify the competing factors to construct the strategy canvas in an analytic and quantitative manner.

The expected main output of future study will be to expand the body of knowledge for blue ocean strategy by introducing an analytical and quantitative approach to substantiate the validity of competing factors in the strategy canvas as well as testing its applicability in a company. In this case, this study will also provide empirical evidence to support the proposition of blue ocean strategy.

REFERENCES