Value innovation a leap into the blue ocean management essay

Article Summary: Kim & Mauborgne (2005) challenge the prominent position that Porters ‘ Competitive Advantage’ theory has occupied in the conventional strategic plans. They state that managers are preoccupied with benchmarking the competition and capturing market share, which leads to the creation of Red Oceans, where companies focus on out-pacing competitors within existing market boundaries for incremental gains. Kim and Mauborgne (2005a) view the Blue Ocean strategy as a standard option for management, taking an empirical view that through ‘ Value Innovation’ firms will be able to find new markets thus creating new consumer demand and ultimately growing while avoiding confrontation with competitors. These firms will be less concerned with defending market position than with creating new value by re-configuring the value chain, and that relentless value innovation is the surest way to thriving and surviving in today’s dynamic and uncertain times. As elucidated by Norman T. Sheeshan and Ganesh Vaidyanathan, (2009), the Blue Ocean companies are said to enjoy a number of first-mover advantages including gaining economies of scale and consumer loyalty. This strategy is considered apt for companies in the mature or decline phase of their product-life cycles. Kim & Mauborgne (2009) recognize that industries should adopt the ‘ reconstructionist’ strategy where the ideas and actions of individual players can shape the economic and industrial landscape and build a strategy that will reshape industry boundaries; as opposed to the ‘ structuralist’ strategy where structure and the environmental factors determine and shape the strategy. The authors state that business literature typically uses the company or the industry sector as the basic unit of analysis for determining the root of profitable growth. However, the analysis of industry history by Kim & Mauborgne depicted that there were neither perpetually excellent performing companies nor perpetually excellent performing industries. Their further observation indicated that Strategic Moves, which consist of the set of managerial actions and decisions, is the right unit of analysis for explaining the creation of blue oceans and sustained high performance. The authors illustrate a number of analytical tools, methodologies and frameworks to plan strategic moves, formulate and execute Blue Ocean Strategies. The Strategy Canvas is the central diagnostic tool and action framework, which provides managers with an insight into how to lift buyer value and create new demand. Other tools like the The Eliminate-Reduce-Raise-Create (ERRC) Grid, The Six Paths Framework, The Pioneer-Migrator-Settler (PMS), The Buyer Utility Map have been created in order to help companies in formulating strategies essential for reconstructing market boundaries. The authors also provide insights on discovering key commonalities of non-customers in order to convert them into customers. The authors address the execution part of the strategy, by introducing the concept of ‘ The Tipping Point Leadership’ for overcoming key organizational hurdles and the ‘ Fair Process’ for motivating employees to execute and adopt the new blue ocean strategies. Kim & Mauborgne summarize by stating that Blue Ocean Strategy is a dynamic process. Once a company has created a blue ocean, it should prolong its profit and growth by swimming as far as possible in the blue ocean, making itself a moving target, distancing itself from potential imitators and discouraging them in the process, via geographic expansion, operational improvements and refining the offering.

Research Paradigm: The Blue Ocean Strategy/Value Innovation Technique presented in the article is based on inductive study, rather than deductive study. The co-authors of the article have applied inductive reasoning to the theory, which examines many pieces of specific information derived from case studies and relevant business literature in the past, to generate a new principle, which they call the Blue Ocean Strategy. There is an absence of a focus group, which makes it difficult to critically examine the number of cases in which companies, which applied blue ocean strategy, failed, nor can it be proved that all the companies which succeeded can attribute their success to the adoption of The Blue Ocean Strategy. The article is theory building, rather than theory testing. The theory presented in the article augments similar concepts developed in the past, and merely presents them in an innovative literature style with new analytical tools and frameworks. The article is essentially based on the Interpretivist Paradigm of the co-authors Kim & Mauborgne and the successful blue ocean innovations presented in the article are subjective and based on the perspective of the co-authors. An Interpretivist Paradigm involves description of experiences. It is primarily exploratory and descriptive in purpose and is purely designed to discover what can be learned about the area of interest. This paradigm has been based on the assumptions (Nick Lee with Ian Lings et al, 2008) given below –

Ontology – The ontology of the co-authors interpretive approach of the article can be considered to be social constructionist. It does not ascribe to the Positivist Ontology definition of ‘ something that is law-like and stable’. Most of the frameworks created are based on the collaborated analysis of a database of case studies. The co-authors are unavoidably involved with the theory of the article, which makes this article subjective and biased.

Epistemology – The epistemological stance of this article based on interpretive approach, is that all the knowledge that has been collaborated by the co-authors for developing the blue ocean strategy is constructed mostly through context specific case studies and data. The knowledge is primarily descriptive and ideographic. The knowledge is based on the co-authors subjective beliefs, values, reasons and understandings.

Axiology – The axiology of the interpretive paradigm presented in this article is characterised by an understanding of the topic by the co-authors based on their values and personal beliefs about the topic. Although the theory can be generalized there is no statistical data or analysis to explain or predict results in the future.

Methodology – The methods for developing this article are based on inductive reasoning and the co-authors have used qualitative data collection methods like grounded theory, case studies and phenomenology. The data collected is context bound and is based on the meaning of reality as perceived or experienced by a group or an individual in a certain situation and thus varies according to the context and situation.

Theory: The Blue Ocean Strategy is described as a radical departure from the conventional landmark strategy of ‘ Competitive Advantage’. Understanding the scenario of change and its repercussions is at the core of Blue Ocean Strategy. The primary aim of this strategy is to replace ‘ competitive advantage’ with ‘ value innovation’. In Porter’s (1985) view ‘ Competition is at the core of the success or failure of firms'. A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is Sustainable Competitive Advantage. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. Within this framework firms try to outperform their rivals, those as defined by strategic groupings, within the industry through finer and finer segmentation of the market within the defined market boundaries. The theory of ' Value Innovation' developed by Kim & Mauborgne is in direct contrast to the theory developed by Porter, where they argue that firms can find new markets where they can grow their profits without competition. Despite all the convincing concepts and practicality of its tools and frameworks, the Blue Ocean Strategy is not an infallible strategy and there are some critical questions, which test its credibility. Firstly, while the co-authors claim that the blue ocean strategy is a radically new strategic plan to create sustainable growth, this strategy is believed to be based on several conventional strategic planning frameworks developed in the past. One of the oldest viewpoints of Strategic Planning developed by Henry Mintzberg (1994) suggests that real strategic change requires inventing new categories, not rearranging old ones. Another influencing premise from which the Blue Ocean Strategy seeks inspiration is the ' Disruptive Innovation' theory by Clayton M. Christensen. When looking at an article supporting this premise, Clayton M. Christensen, Mark W. Johnson and Darrell K. Rigby (2002) state that in almost any industry, the most dramatic stories of growth and success were launched from a platform of disruptive innovation. The Blue Ocean Strategy also owes much to Schumpeter, who introduced the idea that the creative destruction of markets and firms came from innovative companies. As elucidated by Robert R. Wiggins And Timothy W. Ruefli (2005), in Schumpeter's framework, like blue ocean strategy, firms are less concerned about price competition and more focused on innovation as a way to create advantages. One of the most prominent theories of ' Marketing Myopia' purported by the Father of Modern Marketing – Theodore Levitt (2006) also highlights the differentiation / innovation directive, which is the cornerstone of the Blue Ocean Strategy. Hence most of the concepts in the blue ocean strategy seem to be synthesis of the theories of strategic thinkers from the past. Secondly, the research process followed by the co-authors of blue ocean strategy is based on inductive reasoning. So far empirical analysis has focused on case studies of successful firms and thus has been limited in its ability to generalize. There is no hypotheses or statistical data obtained from focus groups, which can be critically tested. Thirdly, there is a major gap in conveying the role of marketing, branding and communication in the blue ocean strategy. Fourthly, there is no mention of a tool or procedure to defend imitation from competitors once a company is in the blue ocean. Lastly, the blue ocean strategy cannot be applied to all products or service. For example, globalization of manufacturing, licensing and franchising businesses makes it impossible for certain product attributes to be changed, or for the manner in which they are delivered to be changed. Hence in such situations, the Blue Oceans are difficult to execute.

Research Gap: The main premise of the strategy is to create uncontested market space, generate new demand and make the competition irrelevant. The prospect of raising demands infinitely is where the Blue Ocean Strategy finds its limitation. The Blue Ocean does not remain blue for a long time. A successful blue ocean will invite competitors, and in time businesses will have to abandon it and start innovating for a new blue ocean. Accelerated technological advances, faster moving business cycles, improved industrial productivity; globalization and dismantling of trade barriers make imitation or entry by competition into newly discovered markets relatively easy. One of the gaps in the Blue Ocean Strategy is the lack of a defensive procedure or a framework, which proves to be a barrier to imitation thus enabling the blue ocean company to enjoy the first mover advantages for a longer time. A careful exploration and analysis is required to devise a strategy or framework for enabling the firm in the newly created blue ocean to enjoy the first-mover advantage and achieve its growth targets. Another section that needs careful consideration and adequate research is that companies spend millions of dollars on innovation and discovery of new markets, this article does not pay adequate stress on conducting market viability tests and focus needs to be also given on the consumer groups, their response to products launched in the new markets.

Conclusion: To sum up, the conclusion of this critique highlights the view that the current recessionary economic conditions are bound to bring more change, more complexity, and more competition. The expectations of customers and investors are bound to rise. But as stated by Robert B. Tucker (2001), companies that pay attention to strengthening the core competency of ‘ innovation’ have nothing to fear – and everything to gain. The Blue Ocean Strategy adopts a positive view of innovation, on a firm’s profitability and states that if a firm can create uncontested markets and dissuade competition from entering the market, such firms will be able to grow without confronting competition. Both, the ‘ Competitive Advantage Strategy’ and ‘ The Blue Ocean Strategy’ are dependant on the in-depth assessment of the market conditions. Hence it is imperative for the mangers to evaluate the market conditions, customer’s demands and then decide on the optimum strategy that yields the most sustainable results.