

Blue Ocean Strategy and Sustainability for Strategic Management

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Abstract. This paper suggests using blue ocean strategy (BOS) to instigate the implementation of sustainability initiatives guided by the similarity between BOS and sustainability in terms of their drive for innovation and value. This is done by introducing the BOS and Sustainability Conceptual Framework, which strategic managers can use as a guiding principle in the development of the organization's strategy. BOS suggests the potential to create profitable growth by means of diminishing the relevancy of competition and creating uncontested market space by creating leap in value with Value Innovation. Similarly, sustainability is a key driver for innovation as companies strive to find new solutions, applications, and techniques that would generate benefits in the environmental, social, and economic spaces. Sustainability also creates value that emerges from doing well by doing good known as Sustainable Value. Therefore, BOS as a business strategy can be used to tap into the sustainability space as a domain for growth where innovation can be used to create new market space and business profit.

Keywords: Blue Ocean Strategy, Sustainability, Innovation, Value, Sustainable Value, Strategic Management.

1. Introduction

Sustainability as a business orientation promises growth driven by innovation and the creation of new markets as organizations look for ways to ensure compliance with environmental regulations and to demonstrate social responsibility and economic viability simultaneously. The drive to make sustainability "profitable" is at the heart of proposing BOS as an approach corner-stoned by Value Innovation to create growth that is sustainability-oriented and profitable. By using BOS, organizations can tap into uncontested markets where competition is irrelevant and the potential for growth is unlimited - as they innovate to sustain the environment, society, and economy. Using innovation as a pivot for sustainability and BOS sets the stage to craft new market space where value is produced for the company, the environment, the society, and the economy simultaneously. Therefore, the purpose of this paper is to propose the utility of BOS in implementing sustainable initiatives as a source of growth for the organization focused on innovation as a key driver.

2. Sustainability and BOS as Drivers for Performance Improvement

2.1.1. Sustainability

Sustainability is a multidimensional construct that revolves around the ability of the system to sustain itself indefinitely. According to Dyllick and Hockerts (2002), sustainability represents the societal development and evolution in the direction of a wealthy and more comfortable world where the natural environment and cultural accomplishments are reserved for future generations. It is no longer a challenging task to justify the business case for sustainability. Research has shown the benefits of sustainability and its positive impact on the corporate performance (Elkington, 1997; Holliday, 2001; Laszlo, 2008; Orlitsky, Schmidt, & Rynes, 2003; Podsakoff, Ahearne, & MacKenzie, 1997; Savitz & Weber, 2006; Waddock & Graves, 1997; Wankel & Stoner, 2008). In various studies, sustainability has been demonstrated to have a positive impact on productivity, cost reduction, profitability, and quality enhancement (Porter & Linde, 1995; Sharma & Vredenburg, 1998; Schaltegger, 2006). It also drives force for corporate entrepreneurship and dru

through the development of green products (Cohen & Winn, 2007; Dean & McMullen, 2007; Marcus, 1996; Marcus & Geffen, 2005; Shrivastava, 1995). Additionally, a recent study by Alhaddi (2014) found that the Triple Bottom Line (TBL), a sustainability-related construct, is a driver for business growth when it is embedded in the strategy of the organization.

2.1.2. Blue Ocean

Blue ocean strategy is a landmark idea founded by W. Kim and Renee Mauborgne in 2004. It was built on the notion of creating new markets where competition is irrelevant and the opportunity to grow and be profitable is unlimited. The concept of blue ocean is based on the idea that the business universe is made up of two spaces (or oceans), the red ocean and the blue ocean. The red ocean represents the known market space where companies compete over a defined market segment. In efforts to outperform rivals, competition grows fierce (turning the water bloody, hence the red notation) as the space becomes crowded and the prospects of growth decline (Kim & Mauborgne, 2004). On the other hand, blue oceans represent the unknown market space and therefore, the industries not in existence today. In blue oceans, waters are clear and untouched by competition. Therefore, creation of new markets is unlimited and the potential to grow is enormous (Kim & Mauborgne, 2005).

Creating blue oceans has a significant impact on the company's growth. In a business launch study of 108 companies, Kim and Mauborgne (2004) found that 86% of the launches were based on extensions/improvement of existing products (red ocean). These launches accounted for 62% of the revenue and 39% of the profits. On the other hand, the remaining 14% of the launches which were based on new markets (blue ocean) accounted for 38% of the revenue, yet 61% of the profits. The rising imperative for companies to create blue oceans is also driven by the shrinking profit margins as supply surpluses demand due to the increase of productivity level as companies continue to compete over the same market shares (Kim & Mauborgne, 2005). By examining the success elements of 150 companies in over 30 industries, founders of the blue ocean concept realized patterns of strategic thinking in the creation of new market spaces which was the basis for the blue ocean strategy.

3. Using BOS to Create New Market Space in Sustainability

3.1.1. The Element of Innovation

Core competences are important for the performance and success of the company (Goddard, 1997; Duysters & Hagedoorn, 2000). Despite their variation based on the company, innovation is a one core competence that every organization needs (Drucker, 1995). It is among the metrics used to reflect the growth prospects of a company (Eccles, 1991). Not surprisingly, it has demonstrated a significant presence in BOS and sustainability. Inseparable from value, it is the cornerstone of BOS and the enabling element of differentiation that allows companies to stand out in the marketplace (Kim & Mauborgne, 2005). For sustainability, innovation is what enables companies to create new opportunities that benefit the business and the stakeholders. In a broad sense, innovation is an organization's inner capability and is not limited to product or technology. In terms of the importance of innovation, it is the engine of sustainable growth (Wirtenberg, Russels, & Lipsky, 2009) and inseparable from value, it is the cornerstone of BOS (Kim & Mauborgne, 2005). The pursuit of innovation optimizes the new value proposition which could be in the form of a new process, product, or the way of doing business (Dervitsiotis, 2011). In many situations, innovation has been applied to a wide span of disciplines including service, design, process, approach, methodology, or offering. Drawn from the role played by innovation in BOS and sustainability, Figure 1 below suggests the conceptual framework of innovation. Not limited to one discipline, innovation is the foundation leading to SV and VI. The proposed idea is that innovation is the basis on which using BOS to implement sustainability are built upon.

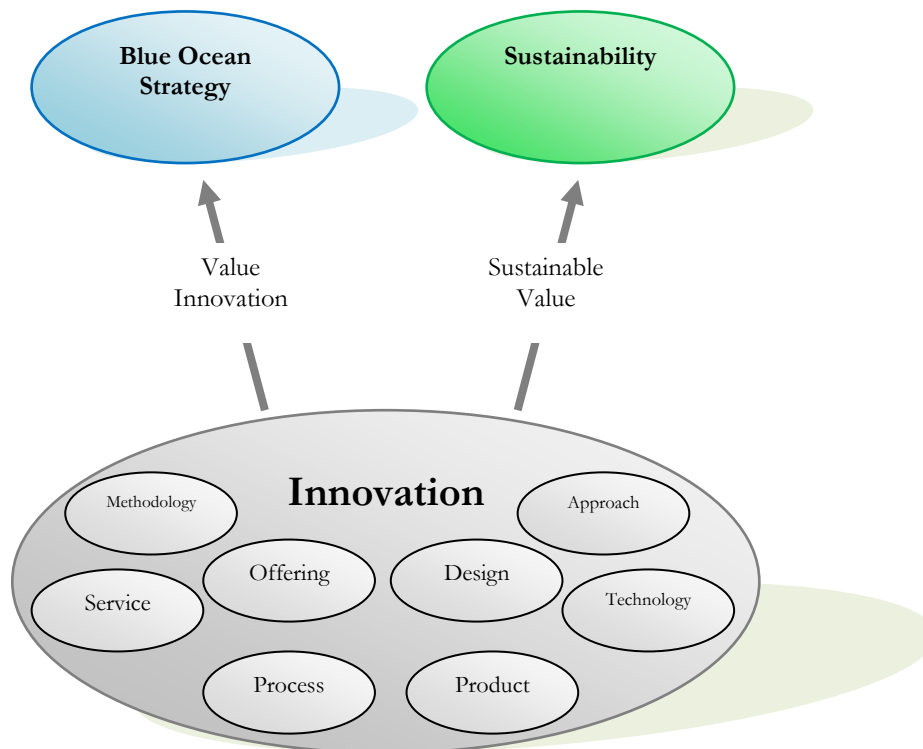


Fig. 1: Conceptual Framework of Innovation.

3.1.2. Innovation in Sustainability

The consensus in much of the current research is that innovation driven by sustainability has a positive impact on the performance of the organization (Husted & Salazar, 2006; Laszlo, 2008; Marcus & Fremeth, 2009; Porter & Linde, 1995). Innovation in sustainability has been applied in the environmental, social, and economic spaces. To that extent, using innovation to address sustainability is not limited to a product or a process. It spans social constructs, organizational forms, and knowledge exchange (Hage, 1999). Collectively, studies show that innovation in sustainability generates wealth, potential for growth, and financial advantages driven by seizing new marketing opportunities, product differentiation, and cost reductions. Innovation in the environmental arena is perhaps the most commonly present in terms of the development of new green processes and products. A study conducted by Chen (2008) showed that green innovation in products and processes has positive impact on the organization image, which is linked to the overall positive performance of the organization (Husted & Salazar, 2006; Miles & Covin, 2000). The examples of successful stories are nearly endless and span most of the industries from consumer retail like Wal-Mart (Laszlo, 2008) to automotive like Toyota (Epstein, 2008; Marcus & Fremeth, 2009), and energy like GE (Husted & Salazar, 2006; Lubin & Esty, 2010; Wirtenberg, Russell, & Lispky, 2009).

Social sustainability is commonly linked to community involvement, labor practices, human capital development, and talent attraction and retention (DOW, 2010). An example of an innovative approach to social sustainability is illustrated in DuPont where the development of the West Africa market was based on developing the human capital – the locals (Holliday, 2001). Allowing the locals of the West Africa region to participate in the implementation of the business plan gave them the opportunity to utilize their knowledge of their internal system and hence develop their personal capabilities compatibly to the expectations of the projects.

3.1.3. Innovation in BOS

Innovation in BOS is a strategic logic used by the creators of BOS where the focus is on masking the competition irrelevant resulting in new and uncontested market spaces. This new way of thinking can only happen when innovation of a product/service is aligned with its cost, price, and utility. The simultaneous pursuit of low cost and differentiation result in a maximization of the buyer value and minimization of the company cost, where the two meet is when Value Innovation is created. It offers value to the company (by

lowering its cost structure and increasing revenue) and to the buyer (by lowering the price and increasing the value of the product/service).

In terms of market boundaries, Innovation in BOS assumes that they are not predefined and hence, can be reconstructed by the industry players. Innovative offerings can create new markets for organizations where the potential for long-term profitability is at its highest (Sheehan & Vaidyanathan, 2009). In creating blue oceans, innovation is an integral part of the strategy, inseparable from value, innovation enables the organization to stand out in the marketplace. So instead of trying to beat the competition, companies are focused on developing value propositions that are new and compelling (Leavy, 2005). Although innovative technology (as a stand-alone entity) may improve the competitive advantage of the company, it is the innovation in creating the value for the consumer what enables organizations to create blue oceans.

3.1.4. The Element of Value

In terms of value, blue ocean and sustainability concepts share common grounds in terms of the drive to create value as a mechanism for growth. From the sustainability perspective, creating value emerges from doing well be doing good (Laszlo, 2008). Here, value is sustainable and it is a way for companies to advance the priorities of the business and drive innovation. The core idea of Sustainable Value (SV) is the creation of positive value to shareholders and stakeholders. When SV is created, environmental and societal benefits are produced (stakeholders) simultaneously with business benefits (shareholders). From the BOS perspective, the creation of value occurs when the reduction of the company's cost structure is met with the increase in the value (of the product/offering) to the buyer. Here, value is innovative because it opens up uncontested market space by producing a leap in value for the company and the buyer. Value Innovation-the cornerstone of BOS occurs when innovation, utility, cost, and price are aligned in the company (Kim & Mauborgne, 2005). So when using BOS in sustainability, both meet at "value". Value is sustainable (in terms of providing benefits to stakeholders and shareholders) and innovative (in terms of creating leap in value for the company and the buyers-consequently the shareholders and associated stakeholders), see Figure 2.

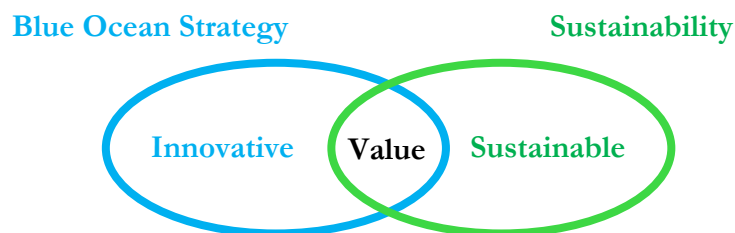


Fig. 2: Value for BOS and Sustainability

3.1.5. BOS and Sustainability Conceptual Framework

Based on the similarity between BOS and sustainability in terms of the focus on innovation and value, BOS is an applicable strategy to implement sustainability-related initiatives. In this regard, strategic managers are encouraged to adopt BOS when tapping into the sustainability space. The BOS and Sustainability Conceptual Framework was developed as a thought-process guide for strategists who are interested in sustainability as domain for business growth, see Figure 3. The framework suggests a three-step process:

1. Define
2. Determine
3. Select

In the first step, executive leaders define the corporate goal. Once the goal has been defined to grow the business, the second step is to determine an applicable strategy to achieve the goal. In the second step, executive leaders work with strategists to determine that BOS is an appropriate strategy to ensure the long term success of the organization. In the third step, Sustainability is selected as a domain for business growth. The process is geared toward a simultaneous integration of the three elements of sustainability: tree (environment), man (society), and money (economy) that ensures the. As this framework guides the thought process of strategists (and strategic managers) in the organization, they are able to develop strategic plans to

tap into uncontested markets in sustainability. They will be able to introduce innovative products/services/processes that sustainability-oriented and profitable at the same time.

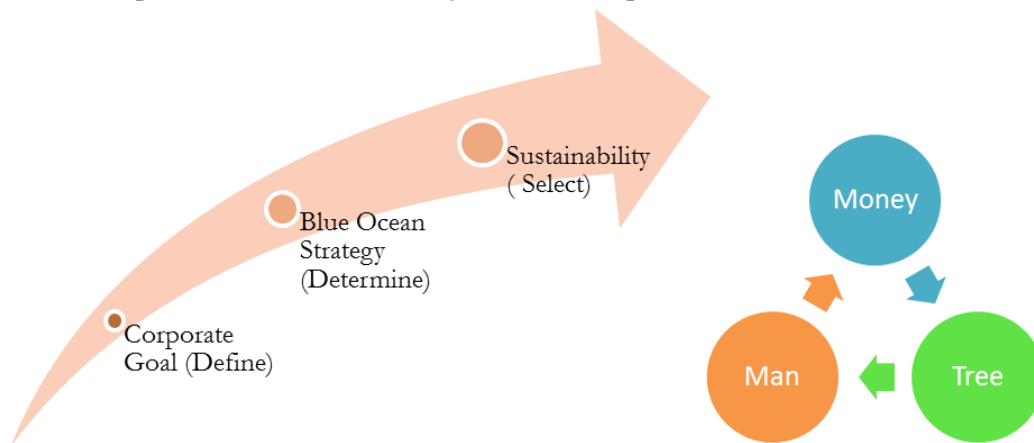


Fig. 3: BOS and Sustainability Conceptual Framework

3.1.6. Applications of Using BOS in Sustainability

3.1.7. Blue Oceans of Environmental Stewardship – Toyota and General Electric (GE)

By seeking out new opportunities that promote for environmental sustainability, Toyota responded to the environmental obligations by introducing the electric/gas hybrid car, Prius. Creating a blue ocean of potential growth in the fuel-efficient car market (Kim & Mauborgne, 2005) has resulted in substantial financial and brand value benefits to Toyota (Epstein, 2008; Laszlo, 2008). Simultaneously, it contributed to the environmental improvement by creating a planet-friendly product that used clean energy, increased fuel efficiency, and reduced gas emissions. So from a BOS perspective, Toyota reconstructed the market boundaries by looking across alternative disciplines (automotive and environment) and through the sustainability lens; it contributed to the environmental sustainability.

In the same notion, General Electric (GE) sought to increase revenue by employing innovation to improve the environmental performance. To that extent, GE established its Ecomagination program with the goal to create new innovative products that would open new market space and potential for growth. Ecomagination resulted in the innovation of products like the fluorescent light bulbs and pollutant-free wire coating, which enabled GE to generate a wealth estimated in over \$10 billion (Epstein, 2008; Laszlo, 2008). GE successfully employed innovation with a sustainability agenda that opened new market space and created value for the company and the stakeholders. By executing BOS in sustainability, Toyota and GE unlocked demand in an innovative way while creating value for the company, buyer, and environment.

3.1.8. Blue Oceans of Social Responsibility – The Body Shop

The Body Shop case study is one that has been frequently referenced as an organization benefiting from sustainability-driven initiatives (Epstein, 2008; Kim & Mauborgen, 2005; Hamschmidt, 2007). Environmentally, the company advocated the call to protect the planet by developing earth-friendly product lines that were made of natural ingredients. Socially, the company associated itself with social issues (opposing animal testing and promoting human rights) that complemented the core values which contributed to the creation of loyal customer base and the differentiation from competition (Hamschmidt, 2007).

From a BOS perspective, the company innovatively sought after the functional and emotional appeals to the buyer to break from competition. As Kim and Mauborgne (2005) explained, The Body Shop transformed an emotional appeal-based industry (cosmetics) into a functional appeal-based one by introducing body products that provided practical benefits (rather than artificial beauty). But they also did the reverse and used emotional appealing by activating self-esteem as a core value and celebrating the uniqueness and individuality of each customer (e.g. the “we like you the way you are” slogan), (The Body Shop, 2010). Using BOS to tap into an uncontested market in social sustainability, the company created value and

generated profit that was demonstrated in steadily increasing revenues and expansion in the store chain (The Body Shop, 2010).

3.1.9. Blue Oceans of Economic Prosperity - DuPont and First Citizens Bank (FCB)

DuPont is a prime example of an organization whose sustainability-driven initiatives contributed to a profitable growth and a strong market position as the world's largest producer of soy protein (Elkington, 1997; Holliday, 2001; Laszlo, 2008; Savitz & Weber, 2006, Wankel & Stoner, 2008). Among its sustainability initiatives was the development of new markets in one of the base-of-the-pyramid economies to sustain and promote economic prosperity. To that extent, the company sought new growth opportunities in the region of West Africa. The innovation in the business planning in terms of selection of market space, operations, and supply base has resulted in a sustainable growth for the company with annual sales of about \$100 million from that region (Holliday, 2001). From a BOS perspective, DuPont reconstructed the market boundaries creating uncontested market space and reached beyond existing demand by looking at the third-tier customers (non-customer segment).

Another example for the innovation in economic prosperity space is the development of First Community Bank (FCB) by Bank Boston. The bank was developed to reach low-income clients who typically get rejected by consumer banking. The initiative was successful in pulling more clients to the banking system and improving their economic condition while growing FCB into a profitable organization with \$1.5 billion in deposits throughout 47 branches (Husted & Salazar, 2006). Similar to DuPont, from a BOS perspective, FCB reached beyond existing demand by looking at third-tier customers (low-income clients) and generated profitable growth which was also accomplished by means of contributing to economic prosperity.

4. Summary

Using BOS to implement sustainability initiatives is proposed based on the common grounds of value and innovation between BOS and sustainability. BOS suggests the potential to create profitable growth by means of diminishing the relevancy of competition and creating uncontested market space. Corner-stoned by Value Innovation, BOS aims at creating leap in value to the company and the buyer driven by a reduction of the cost structure (to the company) and optimization of the value of the product/offering (to the buyer). As a business strategy, BOS can be used to tap into sustainability as a domain for growth where innovation can be used to create new market space and potential for business profit. In implementing sustainability initiatives strategized using BOS, value is produced for the shareholders and the stakeholders.

The proposed conceptual framework for applying BOS to sustainability is a dynamic area worthy of further investigation. The prematurity of BOS in literature and research provides an opportunity for scholars to conduct additional analysis from an academic perspective as the concept is gaining momentum in the business world. Further analysis and testing is anticipated to reveal in-depth multi-level correlation between BOS and sustainability with the aim at enhancing the applicability of strategizing sustainability using BOS. Another application for future research is in the area of leadership. As investigating the relationship among leadership, innovation, and sustainability is gaining momentum in research and literature, (Bossink, 2007; Crews 2010; Epstein, Buhovac, & Yuthas, 2010; Haugh & Talwar, 2010; Lueneburger & Goleman, 2010; Middlebrooks, Miltenberger, Tweedy, Newman, & Follman, 2009), it becomes critical to extend the investigation to include BOS. The goal is to understand the requirements of BOS leadership and how that influences the dynamics in this multi-variable relationship.

5. References

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