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## **Blue Ocean Strategy vs. Competitive Strategy: The Effect of Business Strategic Choices on Firm Performance, According to the Industry Life Cycle**

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### **ABSTRACT**

The purpose of this study is to explore how blue ocean strategy and competitive strategy influence a firm's business performance differently according to its stage in the industry life cycle (ILC). We developed a theoretical research model and the measure items to capture the different attributes of the blue ocean and competitive paradigms. We collected primary data from 309 business owners and senior managers working in the U.S. through a survey research. We tested the data by performing the exploratory factor analysis (EFA), the confirmatory factor analysis (CFA) and the structural equation modeling analysis (SEM) using SPSS and AMOS. The results from the statistical analysis demonstrate that the effects of blue ocean strategy on a firm's business performance become increasingly weak as ILC stages pass, while the effects of competitive strategy gradually strengthen. However, our results show that, in general, blue ocean strategy has a more positive effect on a firm's performance than competitive strategy. In addition, the study results suggest that blue ocean strategy fully mediates the relationship between a firm's market orientation and its business performance, while competitive strategy only partially mediates the relationship. We discuss some theoretical implications and contributions of our research findings.

**Keywords:** *Blue Ocean Strategy, Competitive Strategy, Blue Ocean Market Orientation, Red Ocean Market Orientation, Industry Life Cycle, Firm Performance, EFA, CFA, SEM Analysis*

### **INTRODUCTION**

Porter's (1980, 1986) "competitive strategy" is based on the competitive advantage within given market boundaries and industry structures. Consequent to Porter's (1980) model, the competitive paradigm was considered as a primary framework that guides organizational strategic decision-making (Miller, 1988). In contrast, Kim & Mauborgne's (2005) "blue ocean strategy" is based on a new paradigm that market boundaries and industry structures are not specified and can be reconstructed by the actions of industry players. While Porter's competitive paradigm has been reviewed by numerous empirical studies, Kim & Mauborgne's blue ocean paradigm has been examined by only a few. Furthermore, no existent empirical research directly explores the differences between the impacts of these two strategic paradigms on firms' performances. It is also recognized that one of fundamental difficulties of research on the blue ocean paradigm is the under-developed measurement scales available. Considering these research gaps, first, we develop the measure items to capture the different characteristics of the blue ocean and competitive paradigms. Next, using the measurements, we investigate how a firm's strategy impacts its business performance based on its stage in the industry life cycle (ILC). In particular, this study aims to examine the following research questions: (1) Is blue ocean strategy or competitive strategy more positively influential with regard to firms' performance? (2) Do blue ocean strategy and competitive strategy impact firms' performances differently depending on stage in the industry life cycle? In sum, this study aims at assisting firms in making more appropriate strategic choices according to their ILC stages, ultimately contributing to better business performance.

**THEORETICAL BACKGROUND AND HYPOTHESES DEVELOPMENT**

**Firm’s Market Orientation and Strategic Choice**

Since Michael E. Porter (1980) introduced "competitive strategy" in his book, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, the paradigm of competitive strategy has been reviewed by numerous strategic management studies and also adopted by various different research fields. The competitive paradigm is based on "competitive advantage" within an industry, which can be reached by pursuing either “differentiation” or “cost leadership” (Porter, 1980, 1986). Porter used “differentiation” to narrowly refer to a company’s ability to command a higher price relative to rivals by providing an offering that increases customers’ willingness to pay (Magretta, 2012). Miller (1986) stated that “differentiation” could be accomplished through aggressive marketing, innovative design, and trustworthy product/service quality. On the other hand, “cost leadership” refers to creating a competitive advantage within an industry by reducing operational costs while charging industry-average prices (Porter, 1980). In addition, Porter (1976, 1980) proposed the “five forces model” for assessing competition in an industry structure, based on five competitive forces acting in the industry or sub-industry: bargaining power of buyers, bargaining power of suppliers, threat of entry, threat of substitution, and rivalry among existing competitors.

Kim & Mauborgne (2005) introduced the “blue ocean” paradigm and strategy in their seminal, *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant*. Kim & Mauborgne (2005) describe competition-based strategy as a “red ocean strategy,” which is based on the assumption that an industry’s structural conditions are given and that firms are forced to compete within them. On the other hand, “blue ocean strategy” is based on the view that market boundaries and industry structures are not given and can be reconstructed by the actions and beliefs of industry players (Kim & Mauborgne, 2005). Kim & Mauborgne (2005: 47) state that the major principle of blue ocean strategy is "to reconstruct market boundaries to break from the competition and create blue oceans". In other words, a firm’s strategic goal of blue ocean strategy is "to create new best-practice rules by breaking the existing value/cost trade-off and thereby creating a blue ocean" (Kim & Mauborgne, 2005: 18). Table 1 summarizes firm's different market orientation applied in red ocean market and blue ocean market.

**TABLE 1**  
**Firm's Market Orientation**

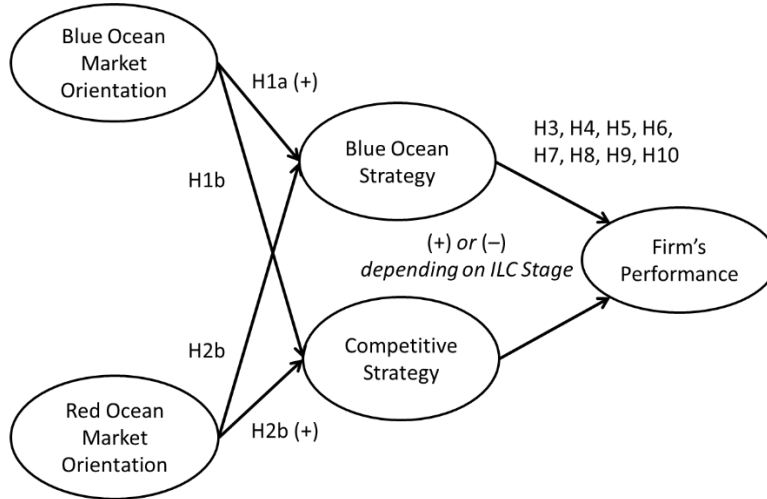
Blue Ocean Orientation	Red Ocean Orientation
✓ Looks across complementary service/produce offerings	✓ Focuses on maximizing the value of offerings within the boundaries of an industry
✓ Looks across time, creating external trends	✓ Focuses on adapting to external trends
✓ Looks across functional/emotional appeal to buyers	✓ Focuses on improving price performance within the functional/emotional appeal of its industry
✓ Looks across the chain of buyers	✓ Focuses on better serving the buyer group
✓ Looks across alternative industries	✓ Focuses on competitors within an industry
✓ Looks across strategic groups within an industry	✓ Focuses on having a competitive position within strategic group

**Source:** Adapted from Kim & Mauborgne (2005). *Blue ocean strategy: How to create uncontested market space and make the competition irrelevant*. Harvard Business Review Press: 48-80.

We argue that blue ocean strategy is based on the view that market boundaries and industry structures are not given and can be reconstructed based on the actions and beliefs of firms, which is what we call the “blue ocean orientation.” In contrast, red ocean strategy is based on the view that an industry's structural conditions are given and that industry players are forced to compete within them, which we call “red ocean orientation.” Based on these arguments, in order to testify the relationship between a firm's orientation toward a market, in terms of blue or red ocean orientation, and a firm's strategic choices, the following hypotheses are proposed: **H1a.** *Blue ocean orientation is positively related to blue ocean strategy.* **H1b.** *Blue ocean orientation is not significantly related to competitive strategy.* **H2a.** *Red ocean orientation is positively related to competitive strategy.* **H2b.** *Red ocean orientation is not significantly related to blue*

ocean strategy. The following Figure 1 demonstrates the hypothesized model to be tested in this study, showing the relationship among firm's market orientation, strategic choice, and performance.

**FIGURE 1**  
**Hypothesized Research Model**



**Note:** Industry Life Cycle (ILC)

**Industry Life Cycle, Strategy, and Firm Performance**

The concept of industry life cycle has developed in many different academic disciplines, including by field scholars such as Levitt (1965), Vernon (1966, 1979), Cox (1967), Williamson (1975), and Lumpkin & Dess (2001). Nevertheless, most studies suggests that industry life cycle can be defined as involving four sequential evolutionary stages that lead to four distinct industry environments: the introduction (or embryonic), growth, mature, and decline industries. In the introduction industry stage, product/service is just beginning to develop and is introduced to a market with little or no competition. In general, the inability of companies' scale economies makes up high price and barriers to entry tend to be based on access to key technological know-how or a first-mover advantage (FMA) rather than cost economies or brand loyalty. The basic idea of an FMA is that pioneering businesses can obtain positive economic profits as the consequence of early market entry, inducing profits in excess of the cost of capital (Frynas, Mellahi, & Pigman, 2006). According to Lieberman and Montgomery (1988), the key element of an FMA is an initial asymmetry among competitors, enabling one firm to gain a head start over its rivals. Thus, in the introduction stage of an industry life cycle, it is expected that a firm's strategic choice between blue ocean and competitive strategy will not make a big difference in performance, because FMA plays a dominant role in the introduction stage regardless of a firm's strategic choice. As such, we propose the following hypothesis: **H3**. *In the introduction stage of an industry life cycle, a firm's strategic choice between blue ocean and competitive strategy is not significantly related to performance.*

During the growth stage of an industry life cycle, several companies have achieved scale economies and built brand loyalty, so entry barriers tend to be relatively low and the threat from potential competitors is typically the highest (Hill & Jones, 2004). In other words, firms in the growth stage are confronted by dynamic environments characterized by rapid change and uncertainty. Lumpkin and Dess (2001) showed that the performance of firms in dynamic environments is stronger when their strategies are more proactive. In the early industry stages, it is assumed that the proactive firms perform better than competitively aggressive firms. Thus, the following hypothesis is suggested: **H4**. *In the growth stage of an ILC, a firm that adopts blue ocean strategy as its primary strategy will perform better than a firm that adopts competitive strategy as its primary strategy.*

Throughout the mature stage of the ILC, sales volume peaks and market saturation is reached, demand is limited to replacement demand, growth is low or non-existent, and competition for market share among established companies is significant, driving a noticeable fall in prices; in general, the companies that survive this stage are those that have brand loyalty as well as low-cost operations (Hill & Jones, 2004). As a result, in this stage, firms usually focus on maintaining a competitive position within a strategic group, and on maximizing the value of product and service offerings within the bounds of their industries. Hence, we assume that firms competing in intensely competitive industries require "strategic discipline" (Porter, 1980), and the strategic discipline required in hostile environments would be more consistent with a competitive strategy. We thus put forward the hypothesis that: **H5.** *In the mature stage of ILC, a firm that adopts competitive strategy as its primary strategy will perform better than a firm that adopts blue ocean strategy as its primary strategy.*

Various reasons, such as social change, international competition, and technological substitution eventually lead an industry into the decline stage. In this stage, falling demand results in the emergence of excess capacity, as well as a price war among established companies. For example, Hill & Jones (2004) indicates that this occurred in the airline industry in the 1990-1992 period and in 2001-2002, leading firms to cut prices to ensure that "they would not be flying half-empty planes or operating with substantial excess capacity" (Hill & Jones, 2004: 57). The essential problem in the decline stage is the substantial excess capacity, so we suggest that an appropriate approach would be to utilize this capacity, and it is assumed that blue ocean strategy would be more effective as a mean of utilizing the substantial excess capacity by reconstructing market boundaries and thereby creating new demand. Thus, we propose to test the following hypothesis: **H6.** *In the decline stage of ILC, a firm that adopts blue ocean strategy as its primary strategy will perform better than a firm that adopt comparative strategy as its primary strategy.* In addition, based on all previous arguments regarding the relationship between the ILC stages and firms' strategic paradigms, the following hypothesis is proposed: **H7.** *Blue ocean strategy and competitive strategy influence a firm's performance differently, depending on the ILC stage.*

Kim & Mauborgne (2005: 12) emphasize that "value innovation" is a core function that allows firms to seize new profit and growth opportunities beyond competing, and so describe it as the cornerstone of blue ocean strategy. They states that "instead of focusing on beating the competition, (blue ocean strategy) focuses on making the competition irrelevant through value innovation, creating a leap in value for buyers and companies, thereby opening up new and uncontested market space" (Kim & Mauborgne, 2005: 12). Kim & Mauborgne (2005) argue that value innovation positively impact a firm's performance, bringing about a comparative advantage. Considering these arguments, we expect that in general, blue ocean strategy may be more positively influential on a firm's performance than competitive strategy because of its high emphasis on innovation. We thus hypothesize as follows: **H8.** *In general, blue ocean strategy has a more positive effect on a firm's performance than competitive strategy.* In addition, based on the aforementioned all hypotheses, it is supposed that firms' market orientations influence their business performances, through the strategies that they adopt. In other words, we expect that a firm's strategy is influenced by its orientation toward the market, and that its business performance is influenced by its strategic choice. Hence, it is necessary to examine the mediating role of a firm's strategy between a firm's market orientation (blue ocean vs. red ocean) and its business performance. Therefore, we propose: **H9.** *Blue ocean strategy mediates the relationship between a firm's blue ocean market orientation and its business performance.* **H10.** *Competitive strategy mediates the relationship between a firm's red ocean market orientation and its business performance.*

## METHODOLOGY

### Sample and Measurement

The primary data used to test our proposed hypotheses was obtained through research surveys. The targeted sample for this study involved business owners and senior-level managers who held active positions in U.S. companies. Several criteria were considered in choosing the respondents. The first criterion was that only one respondent would be chosen from each company. The second criterion was that the target respondent would be selected based on his/her position in the organization. The third criterion was that the target respondents should have knowledge of their firm's primary strategic implementation and performance. If there was more than one eligible candidate from the same organization, the target respondent was chosen on the basis of his/her rank in the organization and likelihood of access

to the information covered by the questionnaire. The survey questions comprised items related to a firm's market orientation, strategy, and performance. The measurement items were developed based on Kim & Mauborgne's (2005) *Blue Ocean Strategy: How to create uncontested market space and make the competition irrelevant*. The initial items were evaluated by performing the exploratory factor analysis (EFA). Appendix 1 lists the final items used in this study. For each item, respondents indicated the extent to which they disagreed or agreed with a statement on a seven-point Likert scale, anchored by strongly disagree (1) and strongly agree (7).

### Data Collection Procedure

Obtaining data from the single source of self-reports (a source of common method variance) can be a matter for concern with regard to the validity and reliability of research results. To reduce common method variance, this study used multiple methods and sources (online surveys, off-line surveys, and interviews). For the online survey, we sent emails to 2,500 business owners and senior business managers who held active positions in their companies in the U.S. We received 266 usable responses to five waves of the survey, giving us a response rate of 10.6 percent. For the off-line survey, we contacted the MBA students at the University of Texas-Pan American who had fulfilled our sampling criteria and received 43 usable responses, giving us a response rate of 91.5 percent. A total of 309 usable responses were obtained. In asking survey participants about their firm's stage in the industry life cycle, 37 people chose the introduction stage, 122 chose the growth stage, 104 chose the mature stage, and 36 chose the decline stage.

### Data Analysis

Data were processed by using IBM SPSS and AMOS. The hypothesized research model was tested through a structural equation modeling analysis (SEM). A SEM can be tested only after adequate measurement and construct validity are established (Hair, Black, Babin, & Anderson, 2010). We first assessed validity issues such as convergent validity and discriminant validity through a confirmatory factor analysis (CFA), and then examined the hypothesized SEM by using AMOS. A multiple-group SEM analysis was also performed, in order to investigate differences in how blue ocean strategy and competitive strategy impact a firm's performance, depending on its stage in the industry life cycle. The effect of strategy in mediating between a firm's market orientation and its business performance was also investigated through a SEM analysis.

## RESULTS

### Confirmatory Factor Analysis (CFA)

**Overall model fit.** We used confirmatory factor analysis (CFA) to assess the reliability and validity of constructs. The key goodness-of-fit (GOF) indices contain the chi-square ( $\chi^2$ ) statistic, the normed chi-square, and the root mean square error of approximation (RMSEA). In this study, the chi-square value was significant ( $\chi^2 = 288.113$ ,  $df = 109$ ,  $p$ -value  $< 0.001$ ) and the normed chi-square was 2.643, suggesting an acceptable fit for our CFA model. Rigdon (1996) has indicated that a RMSEA value less than 0.08 represents a reasonable fit and the RMSEA value, in our model, was 0.073.

**Convergent Validity.** We conducted a confirmatory factor analysis (CFA) to examine convergent validity by assessing the extent to which a set of measured items actually reflected the theoretical latent construct that they were designed to measure, reflecting accuracy of measurement (Hair et al., 2010). In this study, construct validity was evaluated based on factor loadings. At a minimum, all factor loadings should be statistically significant (Anderson & Gerbing, 1988) and the suggested threshold for factor loading is 0.50 or higher (Hair, Anderson, Tatham, & Black, 1998). In this study, all items' standardized factor loadings for five constructs were above the threshold of 0.50 (see Appendix 1). Given this, the result of our CFA analysis demonstrated our study's acceptable convergent validity.

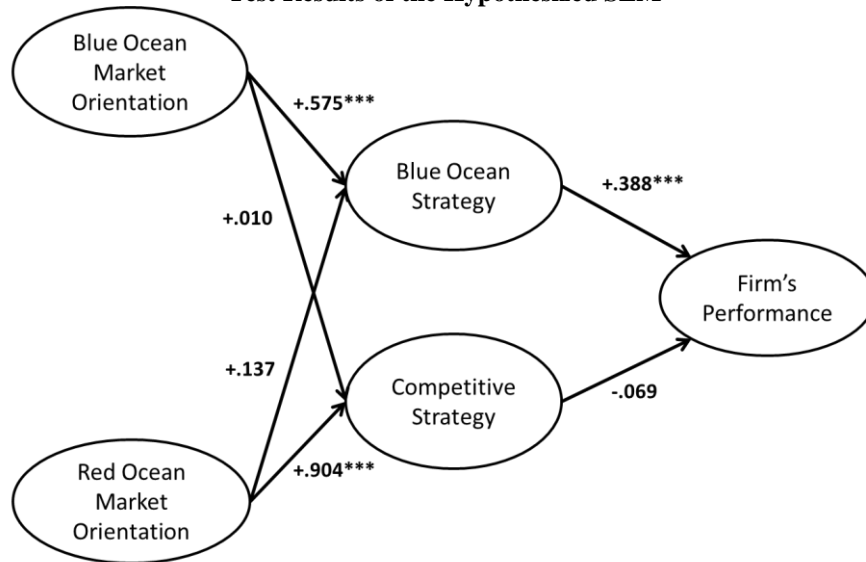
**Discriminant Validity.** A discriminant validity test was performed to examine the extent to which a construct was truly distinct from other constructs (Gerbing & Anderson, 1988). High discriminant validity provides evidence that a construct is unique and captures phenomena that other measures do not (Hair et al., 2010). In this study, this test was

particularly important in distinguishing between different firm's market orientations (i.e. blue ocean orientation vs. red ocean orientation) and strategies (i.e. blue ocean strategy vs. competitive strategy). There was a low level of correlation between blue ocean orientation and red ocean orientation (.190) and between blue ocean strategy and competitive strategy (.166). This demonstrated that each construct incorporates some unique phenomena from the other.

**Structural Equation Modeling (SEM) Analysis**

The results of an examination of the hypothesized SEM (N=309) using AMOS represent that the normed chi-square ( $\chi^2/df$ ) value is 2.084, suggesting an acceptable level of fit for this model and also, the RMSEA is 0.042, demonstrating an acceptable model fit. Our SEM results indicate that a blue ocean orientation has positive and significant effects on a blue ocean strategy ( $\beta = .575, t = 3.879, p < .001$ ), supporting H1a strongly. A blue ocean orientation also has a positive but insignificant effect on competitive strategy ( $\beta = .010, t = .089, p = .929$ ), supporting H1b. A red ocean orientation has a significant positive effect on competitive strategy ( $\beta = .904, t = 4.698, p < .001$ ), supporting H2a fully. A red ocean orientation has a positive but insignificant impact on a blue ocean strategy ( $\beta = .137, t = 1.323, p = .186$ ), supporting H2b. In a comparison of the beta coefficients of the SEM model, the data indicate that a blue ocean strategy has not only a significant but also a positive effect on a firm's performance ( $\beta = .388, t = 3.762, p < .001$ ). On the other hand, a competitive strategy has an insignificant and slightly negative effect on a firm's performance ( $\beta = -.069, t = -.802, p = .422$ ). These findings support H8, and show that, in general, a blue ocean strategy has a more positive effect on a firm's performance than a competitive strategy, because of its strong involvement of innovation. The following Figure 2 depicts the hypothesized SEM test results with the standardized path coefficient ( $\beta$ ) and significant level.

**FIGURE 2**  
**Test Results of the Hypothesized SEM**



**Note:** Beta coefficient estimates; N = 309 (Including all ILC stages);  $\chi^2/df = 2.084$ ; RMSEA = 0.042; **\*\*\***Significant at  $p < 0.01$  level; **\*\***significant at  $p < 0.05$  level; **\***significant at  $p < 0.10$  level.

**Multiple Group Analysis of SEM**

A multiple group analysis using AMOS was performed to examine differences in how blue ocean and competitive strategies influence a firm's performance according to the stage of the industry life cycle that it is in. In the introduction stage of ILC, the results point out that a blue ocean strategy positively impacts a firm's performance ( $\beta = 1.632, p < .10$ ), while a competitive strategy negatively influences it ( $\beta = -1.281, p < .10$ ). These findings suggest that in this

stage, a blue ocean strategy has a much better effect on a firm’s performance than a competitive strategy and that blue ocean and competitive strategies clearly influence a firm’s performance differently. As such, H3 is not supported. During the growth stage of ILC, our findings show that a competitive strategy has significant negative effect on a firm's performance ( $\beta = -.255, p < .05$ ), and that a blue ocean strategy has a negative but insignificant effect on a firm's performance ( $\beta = -.036, t = -.271$ ). Represented by beta coefficients, in the growth stage, neither strategy positively influences a firm's performance, but competitive strategy has a greater negative influence than blue ocean strategy. Thus, H4 is weakly supported. The results for the mature stage of ILC show that blue ocean strategy has a significant positive impact on a firm's performance ( $\beta = .440, p < .05$ ). Competitive strategy also has a positive an effect on a firm's performance, but one that is less significant ( $\beta = .100, p < .10$ ). These findings demonstrate that blue ocean strategy has a better effect on a firm’s performance during the mature stage. Thus, H5 is not supported. During the decline stage of ILC, our results indicate that blue ocean strategy has a positive effect on a firm's performance ( $\beta = .274, p < .10$ ), as does competitive strategy ( $\beta = .268, p < .10$ ). A pair comparison of beta coefficients in the decline stage shows that both blue ocean and competitive strategy positively impact a firm's performance to a similar extent. Accordingly, H6 is not supported. Based on the above information, the results of multiple group SEM analysis prove that blue ocean strategy and competitive strategy have different effects on a firm's performance in the introduction stage of an ILC. However, during the growth, mature, and decline stages, both strategies similarly influence a firm's performance, although to different extents. Therefore, H7 is only partially supported.

**Mediating Effects of Blue Ocean and Competitive Strategies**

In order to examine the effect of a firm's strategy in mediating between its market orientation (blue ocean vs. red ocean) and business performance, the modified model was tested by AMOS. To explore the mediation relationship, we developed a competing model, which involved modifying the initial model by adding two direct paths leading from firms’ market orientations to their performances. This competing model was also tested by AMOS. The chi-square value was significant ( $\chi^2 = 290.076, df = 110, p < .001$ ), and the normed chi-square was 2.637, the RMSEA was 0.073. In a comparison of the initial SEM model and the competing SEM model, model fit indices reveal similar results. The direct path coefficient from blue ocean market orientation to a firm's performance ( $\beta = .095, t = .573$ ) is not significant, but blue ocean strategy ( $\beta = .290, t = 2.288, p < .05$ ) has not only a positive but also a significant effect on a firm's performance. Consequently, it can be concluded that blue ocean strategy fully mediates the relationship between a firm's blue ocean market orientation and its business performance. In addition, a red ocean market orientation ( $\beta = 1.013, t = .775$ ) has an insignificant positive effect on firm's performance, while competitive strategy ( $\beta = -1.084, t = -.816$ ) has an insignificant negative effect on performance. This implies that competitive strategy has a partial mediating influence on the relationship between a firm's orientation and its business performance. Therefore, H9 is supported but H10 is only partially supported.

**DISCUSSION**

**Findings and Implications**

The following Table 2 briefly summarizes the test results for each hypothesis and their implications. Also, the major findings of this study are summarized in Figure 3. Our research results represent some meaningful theoretical and practical implications.

**TABLE 2**  
**Hypotheses’ Test Results and Implications**

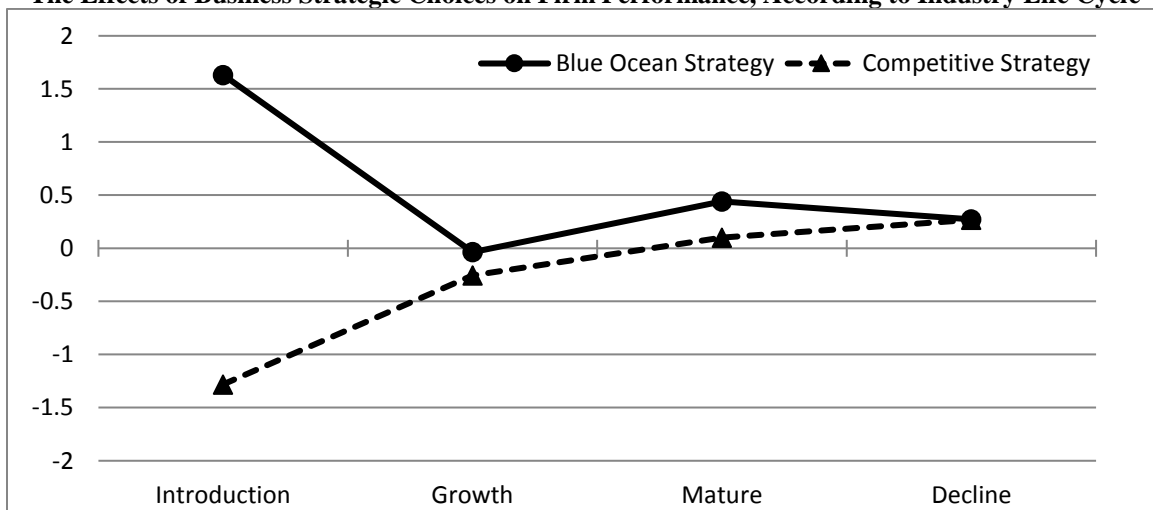
Hypothesis	Result	Implication
H1a	<i>Supported</i>	Blue ocean market orientation is strongly associated with blue ocean strategy.
H1b	<i>Supported</i>	Blue ocean market orientation is weakly associated with competitive strategy.
H2a	<i>Supported</i>	Red ocean market orientation is strongly associated with competitive strategy.
H2b	<i>Supported</i>	Red ocean market orientation is weakly associated with blue ocean strategy.
H3	<i>Not Supported</i>	In the introduction stage, blue ocean strategy has a positive effect on a firm's performance while competitive strategy has a negative effect.



H4	<i>Supported</i>	In the growth stage, competitive strategy has a significantly negative effect on performance.
H5	<i>Not Supported</i>	In the mature stage, blue ocean strategy has a more significant positive effect on performance than competitive strategy.
H6	<i>Not Supported</i>	In the decline stage, both blue ocean strategy and competitive strategy have fairly similar positive effects on a firm's performance.
H7	<i>Partially Supported</i>	Blue ocean strategy and competitive strategy have different effects on firm's performances in the introduction stage, but during the growth, mature, and decline stages, the effectiveness of both strategies is similar.
H8	<i>Supported</i>	Overall, blue ocean strategy is more positively influential on a firm's performance than competitive strategy.
H9	<i>Supported</i>	Blue ocean strategy fully mediates the relationship between a firm's blue ocean market orientation and its business performance.
H10	<i>Partially Supported</i>	Competitive strategy partially mediates the relationship between a firm's red ocean market orientation and its business performance.

Overall, regarding our first research question, which asks whether blue ocean strategy or competitive strategy is more positively influential on firms' performance, our findings demonstrate that blue ocean strategy is generally more positively influential. On the other hand, with regard to our second research question, which asks whether blue ocean strategy and competitive strategy affect a firm's performance differently depending on industry life cycle stage it is in, our results are somewhat complex. As demonstrated in Figure 3, the effects of blue ocean strategy on a firm's business performance become increasingly weak as ILC stages pass, while the effects of competitive strategy gradually strengthen. During the introduction stage, blue ocean strategy and competitive strategy have largely different effects on a firm's performance. Blue ocean strategy has a positive influence on performance, while competitive strategy has a negative influence. However, by the decline stage, the beta coefficient estimates for both strategies converge to become nearly identical (blue ocean strategy:  $\beta = 0.274$ , competitive strategy:  $\beta = 0.268$ ), implying that the effects of both strategies on performance are very similar at this stage.

**FIGURE 3**  
**The Effects of Business Strategic Choices on Firm Performance, According to Industry Life Cycle**



**Note:** Beta coefficient estimates

In addition, some of the findings of this study were quite different from what we initially hypothesized. For instance, in hypothesis 3, we assumed that in the introduction stage of ILC, a firm's strategic choice of blue ocean or competitive strategy might not affect the firm's performance significantly, owing to the strong effect of the first-mover advantage.

In fact, our findings showed that blue ocean strategy has a much more positive impact. Besides, in hypothesis 5, we assume that firms competing in intensely competitive industries would be more consistent with a competitive strategy based on more "strategic discipline" (Porter, 1980). By contrast, this study's results demonstrated that the blue ocean strategy has a more significant positive impact on a firm's business performance than a competitive strategy in hostile business environments or during the mature industry stage. Finally, in hypothesis 7, we assume that the two strategies influence a firm's performance differently, depending on the ILC stage. However, our study's findings indicate that even though the effectiveness of blue ocean and competitive strategies differ dramatically in the introduction stage, their effects on firm performance are fairly similar in the growth, mature, and decline stages.

## CONCLUSION

This study has a limitation. Although the total sample size of this study is more than 300, the sample sizes for both the introduction stage ( $N = 37$ ) and the decline stage ( $N = 36$ ) are relatively small, compared to the sample sizes for the other two stages. As a result, we could obtain only low significant statistics from the results with respect to the two ILC stages ( $p < 0.10$ ). In spite of this limitation, this study contributes to the existing literature on strategic management. While Porter's (1980) competitive paradigm has been examined by numerous empirical studies, Kim & Mauborgne's (2005) blue ocean paradigm has been reviewed by only a few studies due to the under-developed measurement scales available as well as relatively short biography. Besides, no existent empirical research has directly investigated the differences between the impacts of these two strategic paradigms on a firm's performance. In this study, we developed the measure items to capture the different characteristics of the blue ocean and competitive paradigms. Then, using the measurements, we empirically investigated the differences in how blue ocean strategy and competitive strategy impact a firm's business performance according to their ILC stage. Therefore, we anticipate that our study makes both theoretical and methodological contributions to the strategic management literature. Finally, we hope that our findings can help firms in making more appropriate strategic decisions, eventually contributing to better business performance.

## APPENDIX 1: MEASUREMENT SCALE ITEMS

The value in parenthesis for each retained item indicates the standardized factor loading estimates.

### **Blue Ocean Market Orientation**

- BO1. We look into becoming involved in alternative industries. (.63)
- BO2. We look across strategic groups within an industry. (.57)
- BO3. We redefine industry buyer groups. (.65)
- BO4. We look into the complementary products and service offerings of other industries. (.55)

### **Red Ocean Market Orientation**

- RO1. We focus on rivals within our industry. (.53)
- RO2. We focus on having a competitive position within a strategic group. (.68)
- RO3. We focus on better serving the buyer group. (.51)
- RO4. We focus on maximizing the value of product and service offerings within the bounds of our industry. (.58)

### **Blue Ocean Strategy**

- BS1. We focus on creating uncontested market space, making the competition irrelevant. (.54)
- BS2. We reach beyond existing demand and focus on creating and capturing new demand. (.73)
- BS3. We align the whole system of our firm's activities in pursuit of differentiation and low cost. We pursue differentiation and low cost simultaneously. (.53)

### **Competitive Strategy**

- CS1. We focus on competing in the existing market space, trying to beat the competition. (.64)
- CS2. We focus on exploiting existing demand. (.63)
- CS3. We typically make a choice between differentiation and low cost (because we believe that company can either create greater value to customers at a higher cost or create reasonable value at a lower cost). (.52)

### **Firm Performance**

- FP1. Growth in sales (.89)

FP2. Net profit margin (.83)  
 FP3. Growth in market share (.82)

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