Study of Blue Ocean Strategy Effect on the Market Value of Listed Companies in Tehran Stock Exchange Market

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Abstract: Blue Ocean Strategy is a situation in which companies produce products or services that are different from others and at the same time, stand out of intense competition existing between competitors of the market. These strategies seek to explore the unknown market space and focus on non customers, rather than focusing on the market. Among this, with increasing competition and the recognition of the market dimensions for competitors, companies are moving toward implementation of Blue Ocean Strategy in which rather than focusing on competitions on present demand, it is recommended to explore and create new demand in the market. Therefore, in the present study we sought to examine the impact of blue ocean strategies on the market value of companies listed in the Stock Exchange Market. For this purpose, five hypotheses were formulated, literature and research implications were extracted using the library and for information gathering, questionnaires were used, to test the hypotheses, paired comparisons test was used. In this study, all calculations were performed using SPSS software. The results showed that all five strategies to create a non competitive market environment, making the competitiveness nonsense , create and capture new demand, breaking the substitution of value-cost, aligning the entire system of organization's activities to achieve differentiation and low cost, are effective on firm value.
[Aboujafari MR, Farhadnejad MM, Fakher HR, Bagherzadeh M. **Study of Blue Ocean Strategy Effect on the Market Value of Listed Companies in Tehran Stock Exchange Market**. *Life Sci J* 2013;10(6s):61-70] (ISSN:1097-8135). http://www.lifesciencesite.com. **11**

Keywords: blue ocean strategy, non competitive market, demand creation, market value, Stock Exchange Market

1. Introduction

Despite decades of interest and study in strategic management by researchers, but in the academic field has been proposed as a new order (Nerur, Rasheed & Natarajan 2008). In the early 1960s, researchers such as Chandler, Ansoff and Rumelt were interested in the study of integrated planning of organization and presented the following articles: strategy and structure (Chandler 1962), corporate strategy (Ansoff 1965) and Strategy, structure and economic performance (Rumelt 1974).

The company planning focuses on tools and techniques to help make decisions and business orientations (Whittington 1996). During the 1970s, research and study in diversification and portfolio planning were used in response to the individualistic and normative approaches that were previously used (Furrer, Thomas & Goussevskaia 2008). This trend in 1980 continued with focus on Core Business Planning (Kay, McKiernan & Faulkner 2006).

During this period, researchers were interested in studying and researching how organizations are approaching the strategic changes and how those changes are applied, they were. This approach led to the development of an approach titled strategy-as-practice (Whittington 1996).

The term that is used today for the analogy strategy, is strategic management. Strategic management is originated from a simple approach to provide answer to management questions seeking to establish an explanatory intelligent and predictive foundation (Furrer, Thomas & Goussevskaia 2008). Strategic management includes activities related to the survey, evaluation and selection of strategies, adoption of any measures within and outside the organizational to implement these strategies and ultimately controlling accomplished activities (Shih-Chi Chang, 2010).

Strategic management also includes understanding the strategic position of the organization in its surrounding environment, strategic capabilities and expectations of stakeholders, carrying out strategic options for the future, and implementing strategies. (Johnson et al. 2008). Generally, strategic management is a process through which organizations analyze their internal and external environments and acquire knowledge from it. (Theodorou, 2008).

Hills and colleagues (2007), define strategic management as a process by which managers select and implement a set of strategies for their organization. These researchers know strategy as part of the formal planning process. Strategic management process includes requirements, decisions and necessary actions to achieve strategic competitiveness. (Hanson et al. 2008).

One of the common methods of strategic management description is the resource-based view, in which resources are considered as important preparations to produce goods or services and in

which resources are directly related to organizational performance (Priem & Butler 2001) and therefore resources are directly related to the organization's competitive advantage.

Another approach which is contradicting with the resource-based approach, is Strategy as Simple Rules in which competitive advantage can be gained through the successful use of opportunities (Eisenhardt & Sull 2001). This approach is based on the idea that competitive advantage can be achieved when the opportunities arise in market fault times and organizations purposefully seek opportunities in disorder and chaotic markets through flexibility and coordination with changing conditions.

Taking an exact look at the concept of strategic management, we realize the need to use it. According to the environmental changes that have already taken lot acceleration and complexity of organizational decisions, the need for applying a comprehensive plan for dealing with these issues is tangible more than past. Strategic management based on dynamic mentality, prospective, community-based and contingency is the solution to many problems in today's organizations. Strategic management is based on managers' understanding of the competing companies, markets, raw material suppliers, distributors, governments, creditors, shareholders, and customers that are located throughout the world and these factors determine commercial success in today's world (Debi, 2006). So one of the instruments organizations can take advantage of it to achieve success in the future is "strategic management".

In recent years, a movement that has taken place in the world in the field of strategic management is in the areas of innovation and creativity in the strategy and paradigmatic movements in strategic areas. One of the most important developments in this area that has led to a revolution in strategic areas is "Blue Ocean Strategy" that with strategic thinking approach along with innovation in the area of strategy proceeded to provide a set of tools and special approaches to realize it (Kim, et al, 2008).

In fact organizations, in developing strategy seeks to provide convenient and efficient solution to capture a significant share of target market, in such cases in addition to interaction between competitors, in some cases leads to unhealthy competition between them .It can also affect the interests of all competitors. To solve these challenges, management of blue ocean strategy emerged. The aim of this approach is the implementation of strategies by which organizations by creating new value, create new unrivaled markets for their activities, and among this creativity and innovation in the development and implementation of Blue Ocean strategy is important.

1.1. Blue Ocean Strategy

Currently industry developments and rapid changes in technology have intensified competitive pressures for industries. The environment that most companies are now in is the red ocean, in this environment, competition between organizations to outshine others, to achieve higher profits, is the most important issue discussed by experts. In this situation the market demand is often fixed or has low volatility, and as a result by higher selling of one of competitors, sell shares of others is reduced (Kim et al., 200). In such an environment weak organizations are eliminated and this results in intense competition in the related business market and makes the ocean bloody (Debi, 2006).

In this busy competitive environment, when intensity of competition increases, the market share reduces and hence profit and growth will be limited. Among this in recent years the concept of the "Blue Ocean" has been proposed. Blue Ocean refers to businesses that currently do not exist, i.e. are unknown markets that competitors still have not entered and an environment for which rules have not yet developed (Gandellini, 2011).

The blue color implication is innovation and creating new demands, so the blue ocean concept means to use an original and untapped but a large market that has not yet been discovered. Therefore the blue ocean strategy emphasizes "value innovation" and is created when a business creates new values for itself and its customers.

Ocean Blue is a systematic approach to find businesses that competition in them loses its meaning that it has in traditional markets. In other words, it means making competition nonsense by finding new environment for business. It is somewhat similar to the idea in the past, finding Niche Market in traditional markets (where competition was limited for gaining market share), but with this difference that, this time, had not to limit the target market and customers, but rather the focus of organization is on creating a value creating innovation and entering new areas (Shih-Chi Chang, 2010).

In implementing blue ocean strategies, blue color concept means innovation and innovation means to create new demand or to create a replacement for customers of current markets. This innovation is followed by change or evolution. Change is difference in the shape and evolution is difference is content (Gandellini, 2011). In a system in which a collection of interconnected components and members with identified and defined relations are working definition, different mode of changes and evolutions occur. In some cases, overall shape of the system is changed due to change, but the content does not change, and thus the components and relationships of a system, will have minor changes.

In other words, today organizations and creative managers should focus on fundamental evolutions and leaping movements instead of focusing on analysis of products and industry. To do this, tools and frameworks available in the recognized red ocean market are not responsive and organizations should compete with existing tools with more effective tools and frameworks, to be successful in creating blue ocean strategies. Organization managers and strategists who are trying to create blue oceans, seek answers to these questions that how and by what means it is possible to get out of red ocean competitive environment or to create blue ocean in a non competitive environment?

In blue oceans, there is a high potential for growth and profitability and high potential demand for goods and services. Creator of the ocean can determine rules and boundaries of the industry (Kim & Mauborgne, 2005).

Important strategies addressed in Blue Ocean Strategy issue are summarized below:

- Creating a non competitive market
- Making competition non sense
- Create and capture new demand
- Breaking substitution between value - cost
- Aligning entire system of organization's activities to achieve diversification and low cost

According to the definitions provided by Kim and Mao Burgneh (2004) key features and specifications of blue ocean approach can be compared with Red Ocean in chart number 1.

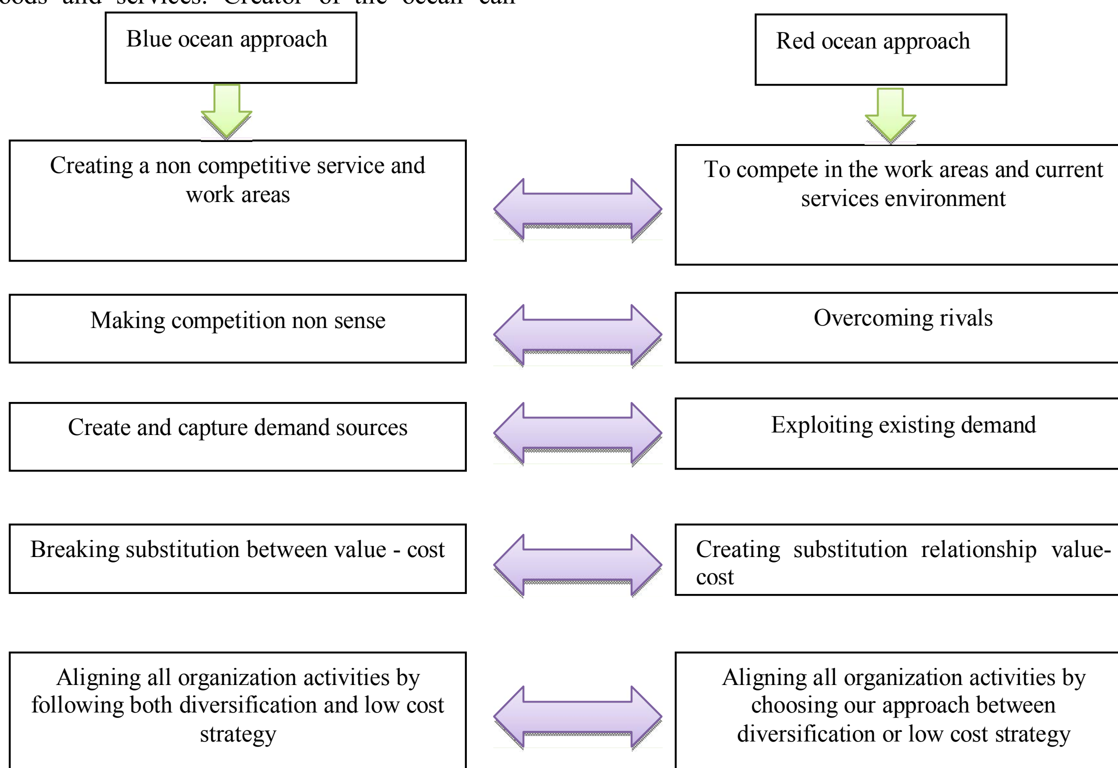


Chart1. Blue Ocean vs. Red Ocean Strategy

2.1. Market Value

Market value or portfolio value of an investment company is acquired by dividing the current value of stock in Investment Company's portfolio by the number of shares of that company. Simply put, this variable indicates how much profit each company will acquire from investments in their sales. This variable can be obtained from information published by the companies. As such, this number represents the current value of company's investment per share.

By comparing the current value and company's portfolio value speculation can be made about the status and future price of share. Generally, the value of an investment company's portfolio is about the price of that company's share and is not very different from share price. But this slight difference in the numerical analysis of Investment Company is important.

These investigations can be considered in three modes:

- In the first case the value of the company's portfolio is more than current price of share. In this case in the earliest level of studies, two things can be expected. First, the price of share

will have the least capability of achieving prices around portfolio value. For example, an investment company's portfolio value per share is 2100 Rials while current value of the company's share is 1700 Rials. But it should be noted that more probably a factor has caused this difference in price, and generally, the analysis of the existing industries in portfolio of these companies indicates market uncertainty about the profitability continuation and growth. Thus the market deals with such stock with caution and most of the time is not willing to purchase the shares of such companies even with a price equal to the value of their portfolio. But with incidence of a little evolution in these industries, the market deals with the shares of investment companies with more confidence than before, and can quickly bring company's stock price around the portfolio value.

- In the second case, the company's portfolio value is equal to current price of share and price growth capability of share cannot be easily considered. But even in this case other conditions such as analysis of existing industries in company's portfolio, share marketing, etc., can be involved in determining the price of share.
- In the third case the share price is higher than the company's value of portfolio. One of the earliest analyzes, in this case can be related to expecting further growth of investment company's share due to the expected growth of existing industries in portfolio. But if such future is not depicted for the share, reduction of the share price can be considered. But otherwise, stability of the share price enhancement to portfolio value may be sustained. Finally, it should be noted that the materials listed in this section will cover only part of the analysis and by relying only on them a complete conclusion cannot be achieved and readers should consider all cases in their choices. However, this series of articles, are only provided to make investors familiar with the basic principles of analysis, and complexities of the stock market demands more expert in scientific analysis and psychology of the market.

3.1. The Concept of Economic Added Value, and Its Advantages and Disadvantages:

The foundation philosophy of economic added value is that investors expect reward for providing financial sources and bearing business risk. Operating profit of the company should outpace the cost of capital to create value for shareholders. In calculating accounting profit, only the financial cost is considered through debt and managers assume funds provided by the shareholders without cost. But in the concept of economic added value, the cost of financing through shareholders is also considered, because money does not enter company automatically and each value has a cost. Among all approaches for measuring performance, approach based on residual income and economic added value, has attracted the most attention. Stewart believes that earnings, earnings per share and earnings growth, are misleading measures of firm performance and among this economic added value are the best criteria for performance evaluation. A company that for years has a positive economic added value causes the shares to be sold only and to create value for shareholders, but if the company is not able to earn returns over cost of capital, not only does not create value for shareholders, but also causes the loss of value (Young 1997).

A company's market value equals to its total market value of equity and market value of debt. Economic added value is the difference between the total market value of the business unit and its economic capital. Unlike the rate of return that reflects only the result of a period, the market added value, is a cumulative measure of corporate performance. This measure shows how the company has planned its capital.

Son the primary goal of any company should be to maximize the market value added. Of market value added benefits is to show how a company successfully has used its capital and predicted the future profit opportunities (Kramer & Peterd, 2001).

2. Background Research

In this section we present some studies in the field of blue ocean strategy. Since organizations for implementing blue ocean strategy require research and development and increasing its costs, a review of previous studies on the relationship between expenses of research and development (R & D) and market value of the companies will be discussed.

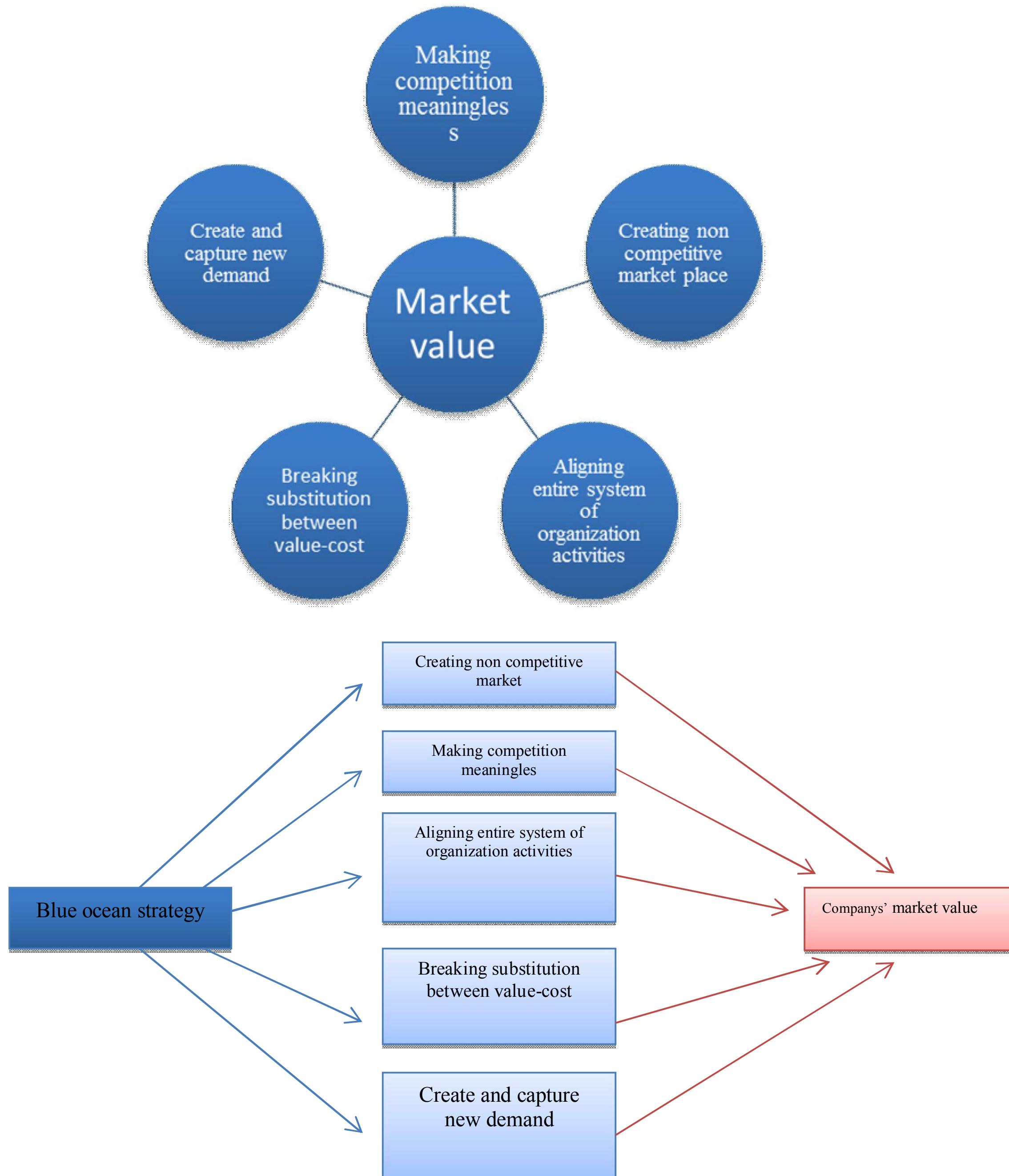
McConnell and Mouse Carla found that unexpectedly increases in planned capital expenditures, have a positive effect on the company's market value and unexpected reductions have negative effects (Mc Connell & Muscarella, 1985).

The positive reaction of the stock market, about the increases in R & D expenses may be a reason for the strong correlation between R & D expenses and the market value of that company. This relationship is particularly more important in large companies. If advertising and R & D costs, investment costs show some kind of capital expenses that create the stable economic benefits more than a year, the market value effect can be predicted.

Hirsch and Chavin showed that advertising and R & D expenses have consistent, positive and large effects

on the company's market value. As cash flows data, advertising information and R & D expenses also make it possible to predict the amount and variability of future cash flows. As a result, advertising and R & D spending can be seen as a form of investment in intangible assets with positive effects of predicting future cash flows (Chauvin & Hirschey, 1993).
Miller and Modigliani have shown in a research that advertising and R & D expenses have a positive effect on the market value of the company. Such as cash flow, growth, risk and market share, advertising and R & D expenses, is a key criterion for the market value of the firm. The positive effect of advertising and R & D expenses on the market value exists in both non-manufacturing and manufacturing companies and there (Miller, M. & F. Modigliani, 1961).

3. Conceptual Model of Research



4. Research Methodology

What is important among this, according to the new concept of blue ocean strategy and the need for development in organizations, is to evaluate how Blue Ocean Strategy affects the business performance. So this study examined the relationship between different aspects of blue ocean strategy with market value of listed companies in Tehran stock exchange. The study was implemented in two phases. In the first phase and based on the presented conceptual model we implemented the Blue Ocean strategy, in a number of these companies for 18 months. In the second phase, we continued the research process by distributing a questionnaire to seek answers to the research hypotheses.

The present study was descriptive-qualitative, and in terms of the aim is an applied research.

Qualitative research methods form theoretical infrastructure for quantitative analysis (Sieber, 1973). In terms of time, the present study is a cross-sectional study, so that examines the views of managers, supervisors and experts on the topic of research in the study population (companies listed in Tehran Stock Exchange), in the first six months of 1390.

The population of this study consists of all firms listed in Tehran Stock Exchange, which are over 1393 companies in various industries and market halls.

Given the breadth of companies and their distribution throughout Iran, it was not possible to study entire population. Thus, using the statistical methods, sampling was made from study population. The population of the study is a population with normal distribution. To determine sample size, taking into account the following assumptions Cochran's formula is used.

Assuming that success or approval ratio of hypotheses (p), or the failure to reject ratio of the hypothesis (q), that we consider each 50% and the error estimation of 10% (10% = d) and 95% confidence intervals (96 / 1 = z = t) it is possible to determine target sample size in this study based on the Cochran formula.

$$n = \frac{N(t^2 \times (p.q))}{N(d^2) + t^2 \times (p.q)}$$

N: sample size, n: selected sample size

According to the above equation, the selected sample size is as follows:

$$n = \frac{1393(1/96)^2 \times (\%50 \times \%50)}{1393(\%10)^2 + (1/96)^2 \times (\%50 \times \%50)} = \frac{1337}{14.89} \approx 90$$

Finally, the selected sample size of 90 companies with error estimates of 10% and confidence coefficient of 95% it can be claimed that the selected sample has characteristics of statistical population. So results obtained from hypothesis testing by this sample can be extended to the entire statistical population.

A questionnaire was prepared to test the research hypotheses. The questionnaire contained 48 questions which based on a Likert scale have five options.

Questions respectively have 10 questions for making competition nonsense strategy, 11 questions for creating non competitive market environment strategy, 12 questions for aligning entire system of organization activities strategy, 15 questions for breaking substitution between value-cost strategy and create and capture new demand strategy, that are outlined below with regard to the referred criteria.

1. Criteria are based on existing organizational structures in Iranian companies.

2. No industrial discrimination was considered in providing questions of questionnaire.

3. Proposed criteria are qualitative criteria that can be expressed beside the quantities.

4. Questions are designed so that subject is not unclear or not non-tangible for respondent. Because the major limitation of this study is inadequate familiarity of the concerned executives and experts with the concept of Blue Ocean strategy and its components, criteria and definition of Blue Ocean Strategy and its components were presented to the respondents along with the questionnaire.

Questionnaire validity was determined through face validity and reliability of the questionnaire was tested using Cronbach's alpha coefficient, that Cronbach's alpha coefficient was calculated 0/914for the questionnaire, which represents acceptable reliability of questionnaire design.

In this study, after the collection and summarization of data, their normality was tested. To test for normality of the data obtained for the market value before and after the implementation of Blue Ocean Strategy, the Kolmogorov- Smirnov Z test was used.

Table 1: Results of the Kolmogorov- Smirnov Z test for research data

Significance level (sig)	Kolmogorov-Smirnov Z	Variable	
0/896	0/575	Before applying	making competition nonsense
0/613	0/758	After applying	
0/098	1/653	Before applying	creating non competitive market environment
0/138	1/408	After applying	
0/086	1/713	Before applying	aligning entire system of organization activities
0/094	1/398	After applying	
0/101	1/709	Before applying	breaking substitution between value-cost
0/153	1/134	After applying	
0/053	1/346	Before applying	create and capture new demand
0/089	1/457	After applying	

In data normality test, the null hypothesis is that the distribution of data follows a normal distribution. Alternative hypothesis implies the opposite. According to the table, significant level of all data is more than 0/05, so it can be said that the distribution of the data obtained from the survey questionnaires was normal. Therefore, to test hypotheses, parametric statistics can be used.

5. The Research Hypotheses

Making competition nonsense strategy affects market value of companies.

Creating non competitive market environment strategy affects market value of companies.

Aligning entire system of organization activities strategy affects market value of companies.

Breaking substitution between value-cost strategy affects market value of companies.

Create and capture new demand strategy affects market value of companies.

6. The Research Hypotheses Testing

Given the normal distribution of data, to test the research hypotheses, paired test was used to investigate the impact of Blue Ocean Strategy on the market value of listed companies in Tehran Stock Exchange.

First Hypotheses Testing

The first hypothesis states that making competition nonsense strategy affects market value of companies.

H0: Making competition nonsense strategy does not affect market value of companies.

H1: Making competition nonsense strategy affects market value of companies.

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Table of results of first hypothesis testing

Significance level (sig)	t value	Degree of freedom	Standard deviation	Mean	Significance level (sig)	Correlation coefficient
0/000	-33/613	117	0/2808	-0/86917	0/000	0/628

According to the above table, the test results show that the value of t is equal to -33/613and significance level (sig) of test is less than 5%. Mean difference also shows that the score of market value of companies has increased after applying making competition nonsense strategy. Thus H0 is rejected. In other words, we can say that in 95% confidence level, making competition nonsense affects market value of companies. Pair Correlation coefficient is equal to 0/628. According to Significance level (sig) value it can be claimed that there is a significant correlation between the score of market value of companies, before and after applying making competition nonsense strategy.

Second Hypotheses Testing

The second hypothesis states that creating non competitive market environment strategy affects market value of companies.

H0: Creating non competitive market environment strategy does not affect market value of companies.

H1: Creating non competitive market environment strategy affects market value of companies.

Table of results of second hypothesis testing

Significance level (sig)	t value	Degree of freedom	Standard deviation	Mean	Significance level (sig)	Correlation coefficient
0/000	-9/734	117	0/624	-0/559	0/000	0/432

According to the above table, the test results show that the value of t is equal to -9/734and significance level (sig) of test is less than 5%. Mean difference also shows that the score of market value of companies has increased after applying creating non competitive market environment strategy. Thus H0 is rejected. In other words, we can say that in 95% confidence level, creating non competitive market environment affects market value of companies. Pair Correlation coefficient is equal to 0/432. According to Significance level (sig) value it can be claimed that there is a significant correlation between the score of market value of companies, before and after applying creating non competitive market environment strategy.

Third Hypotheses Testing

The third hypothesis states that aligning entire system of organization activities strategy affects market value of companies.

H0: Aligning entire system of organization activities strategy does not affect market value of companies.

H1: Aligning entire system of organization activities strategy affects market value of companies.

Table of results of third hypothesis testing

Significance level (sig)	t value	Degree of freedom	Standard deviation	Mean	Significance level (sig)	Correlation coefficient
0/000	-20/103	117	0/7555	-1/3983	0/040	0/137

According to the above table, the test results show that the value of t is equal to -20/103and significance level (sig) of test is less than 5%. Mean difference also shows that the score of market value of companies has increased after applying aligning entire system of organization activities strategy. Thus H0 is rejected. In other words, we can say that in 95% confidence level, aligning entire system of organization activities affects market value of companies. Pair Correlation coefficient is equal to 0/137. According to Significance level (sig) value it can be claimed that there is a significant correlation between the score of market value of companies, before and after applying aligning entire system of organization activities strategy.

Fourth Hypotheses Testing

The fourth hypothesis states that breaking substitution between value-cost strategy affects market value of companies.

H0: Breaking substitution between value-cost strategy does not affect market value of companies.

H1: Breaking substitution between value-cost strategy affects market value of companies.

Table of results of fourth hypothesis testing

Significance level (sig)	t value	Degree of freedom	Standard deviation	Mean	Significance level (sig)	Correlation coefficient
0/000	-15/930	117	0/6125	0/8983	0/000	0/501

According to the above table, the test results show that the value of t is equal to -15/930and significance level (sig) of test is less than 5%. Mean difference also shows that the score of market value of companies has increased after applying breaking substitution between value-cost strategy. Thus H0 is rejected. In other words, we can say that in 95% confidence level, breaking substitution between value-cost affects market value of companies. Pair Correlation coefficient is equal to 0/501. According to Significance level (sig) value it can be claimed that there is a significant correlation between the score of market value of companies, before and after applying breaking substitution between value-cost strategy.

Fifth Hypotheses Testing

The fifth hypothesis states that create and capture new demand strategy affects market value of companies.

H0: Create and capture new demand strategy does not affect market value of companies.

H1: Create and capture new demand strategy affects market value of companies.

Table of results of fifth hypothesis testing

Significance level (sig)	t value	Degree of freedom	Standard deviation	Mean	Significance level (sig)	Correlation coefficient
0/000	-14/489	117	0/4654	-0/6207	0/000	0/586

According to the above table, the test results show that the value of t is equal to -14/489and significance level (sig) of test is less than 5%. Mean difference also shows that the score of market value of companies has increased after applying create and capture new demand strategy. Thus H0 is rejected. In other words, we can say that in 95% confidence level, create and capture new demand affects market value

of companies. Pair Correlation coefficient is equal to 0/586. According to Significance level (sig) value it can be claimed that there is a significant correlation between the score of market value of companies, before and after applying create and capture new demand strategy.

7. Conclusion

Nowadays organizations and creative managers should focus should focus on fundamental evolutions and leaping movements instead of focusing on analysis of products and industry. To do this, tools and frameworks available in the recognized red ocean market are not responsive and organizations should compete with existing tools with more effective tools and frameworks, to be successful in creating blue ocean strategies. The aim of this study was to investigate the impact of different aspects of the Blue Ocean Strategy on the market value of listed companies in Tehran Stock Exchange. Results of hypothesis testing showed that all five strategies were confirmed in other words, the blue ocean strategies affect market value.

Creating a blue ocean is a dynamic process and as soon as a company creates a blue ocean and the consequences of its superior performance are determined, sooner or later imitators appear.

The question that arises is how later or earlier they arrive? Or in other words, how easy or difficult is it to imitate Blue Ocean? However, almost every blue ocean strategy will be imitated. Since, imitators try to grab a share of your blue ocean, you normally take defensive actions to protect your customers, but usually imitators resist. Perhaps in an effort to maintain market share get caught in the competition trap and struggle for the new competition. Over time, probably the competition factor and not the buyer, gain your center of strategic thinking and actions. If you are in this situation, the original curved shape of your market value will converge with competition. To avoid the pitfalls of competition, you must monitor the market the curves of market value in strategy panel. Monitoring the market value curves determines when to innovate in market value and when not to do it, and note that when the market value of the curve converges with competition, you've been out of the blue ocean. When competition is intensified and demand exceeds supply, the bloody competition begins and the ocean will be red. Because the competitors' value curves converge with your value curves, in this case, try to create a new value innovation and to create another blue ocean. By drawing value curve on the strategy panel and alternatively drawing competitors' value curves against your business value curves, you can always realize the extent of others' imitation and the extent of the value curve's integration.

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3/17/2013