

## In investigation on the implementation of Blue Ocean strategy in participation bank located in Turkey

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**Abstract.** Competition is one of the most important issues in terms of the market which meets the needs and demands of the current economic system. In the market where customer demands and needs change very rapidly, the growth in terms of businesses is getting harder every day. It is even more difficult for businesses to get a share of the market and thus to make higher profits in competition-intensive environments. Participation banks, like any business, continue to exist in a highly competitive environment in the market they serve. For this reason, participation banks need to sail from the red oceans where competition is intense, to the blue oceans where competition is meaningless. This study conducted research on the strategies they use as blue ocean strategy of participation banks in Turkey. In the first part of the research, information about blue ocean strategy is given. In the second part, data collected through open-ended question examples and face to face interview technique with branch managers of Kuwait Turk Participation Bank, Turkey Finance Participation Bank and Albaraka Turk Participation Bank, operating in Turkey over these past years, is given. In the last part of the research, it is emphasized that the participation banks, which are the rising value of today, need blue ocean and how to reach the new blue oceans that will make the competition meaningless.

**Keywords.** Blue ocean strategy, Red ocean, Competition, Participation bank, Strategy.

**JEL.** E50, G21, G23, G24, G28.

### 1. Introduction

Both the service-producing and product-producing enterprises have their share from the competitive environment where the market is shrinking. At this point, companies have to resort to various new strategies in order to protect their existing market shares and to expand their shares. In the absence of new strategies, the enterprises will move away from their targets. For this reason, enterprises that act with profit motive, break down the existing structure with the innovations that disrupt the normal flow and act with the strategies to make more profit from their competitors. After a while, with the abolition of the advantages that this strategy brings along, that is, with the multiplication of the enterprises that imitate them, the profits of the enterprises fall and they need innovation again (Schumpeter, 1943).

In the last quarter of the 20th century, innovation has become inseparable with institutional routines for enterprises. Businesses can move in two different ways at the point of changing their routines; either renew their own routines or transfer the routines of successful businesses to their businesses (Winter & Nelson, 1982). In the form of renewing their routine; because of the high uncertainties, enterprises generally transfer successful routines (Dickson, 2003). As a result of this, imitation

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occurs and the enterprise whose routine is imitated is forced to seek innovation again in its strategy.

Businesses can traditionally take four different positions against their competitors. Accordingly, they can act according to one of the competitive, cooperative, aggressive or reactive positions (Miles *et al.*, 1978). Instead of these traditional modes of action, the blue ocean strategy offers a new approach. In the Blue Ocean strategy, the areas where businesses operate in a highly competitive environment are referred to as the "red ocean" activity (Kim & Mauborgne, 2005). Enterprises in the red oceans know the rules of the competitive game and are constantly competing to buy small shares from the market. They try to reduce the price and costs to eliminate their competitors. As a result, businesses reduce their profitability and focus on competition rather than other areas.

In the banking sector, where competition is very intensive, the situation is not very different. Unlike conventional banking, participation banks, which serve as a profit-loss partnership to their customers, are in intense competition with conventional banks on the one hand and participation banks operating in the same way in order to increase their existing market shares. It is inevitable for participation banks to sail from this competition and sail to the blue oceans, which are called "blue ocean" and where competition becomes meaningless.

This strategy, called the Blue Ocean Strategy, foresees enterprises to differentiate from their competitors, reduce their costs, and create a new market as a result of their strategy rather than show them more performance, and thus raise their profits by making competition in the market meaningless.

In this study, the managers of Kuwait Turkish Participation Bank, Albaraka Turk Participation Bank and Turkey Finance Participation Bank were asked open-ended questions and face to face interview technique was used. It is pointed out the need for strategies that will enable the participation banks, which are the rising value of today's banking sector, to reach the blue oceans, which will render competition from the red oceans meaningless.

### 2. Blue ocean strategy

Blue Ocean Strategy - How to Create Uncontested Market Space and Make the Competition Irrelevant was written in 2004 by W. Chan Kim and Renee Mauborgne (2004) and has been translated into 40 languages in 5 continents and attracted the attention of the world. In this book, sold over two million copies, the authors state that a new era has started in the field of strategy and this period is called the Blue Ocean Age.

Businesses can continue their assets in two different market options. The first one is the existing market where there is competition and the other is the new market areas that are formed by strategies that will make competition meaningless instead of competing with competitors. Kim and Mauborgne have named the red ocean as the markets where businesses are currently operating. The reason why these markets are called red is that they want to reflect the intensity of competition. The innovative, value-based and yet undiscovered market areas that make competition meaningless are called as the blue ocean. According to the blue ocean strategy, the way to stand out from the competition with other businesses operating in the same market is to redefine the concept of customer value by creating new value concepts (Yiğit, 2015).

Kim and Mauborgne, who have studied more than 150 strategic moves of the firms operating in 30 different industries between 1880-2000, have shown that companies can be able to succeed in the red oceans and succeed in the blue oceans in order to achieve success (Baltaş, 2018).

Considering the competitive problems of enterprises operating in the red oceans, it is a fact that efforts to operate in the blue oceans are inevitable with innovative approaches (Kazdal, 2013). It is a fact that the profit and the growth rate decrease and the opportunities are less in the environments where the enterprises

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are constantly competing with each other. In the blue ocean strategy that makes competition meaningless, it is stated that enterprises should offer different and high value to their customers at low cost (Kalkan & Alparslan, 2009). The businesses following the blue ocean strategy are interested in opening new business areas instead of competing with their competitors (Bekmezci, 2013). While these businesses focus on new products and services that customers do not know, businesses in the red oceans are constantly following the products and services offered by their competitors by making a comparison (Yardley, 2015). Therefore, businesses must operate in the blue oceans that create new demands instead of operating in the red oceans they compete with their rivals, but this strategy will keep businesses alive (Bourletidis, 2014).

What is the most important point here? It is of great importance that businesses know whether they are in the red ocean or in the blue ocean and that managers create a road map for the enterprise. Because a company that thinks it is in the blue ocean can suddenly find itself in the red ocean due to the imitation of its strategy. The blue ocean strategy, which aims to create a new market rather than the current market, will lose its meaning when new actors enter the market. The introduction of new actors into this market, where competition is made meaningless, will bring about competition again (Ergen, 2011). In other words, the superiority gained by the blue ocean strategy can only be sustained for a temporary period of time, so every blue ocean will be reddened (Güneş, 2011). Therefore, it is necessary to create a good blue ocean strategy to reduce the imitability. A good strategy can not easily be imitated and it cost savings. The way to avoid being imitated and avoiding new firms in the market is to make a great value innovation (Chang, 2010).

The Blue Ocean Strategy argues that businesses should be different from their competitors on the way to the blue ocean, and for this purpose, it is necessary for businesses to be informed about what the clients' demands are and what they like. At this point, according to the strategy that shows the advanced importance of customer relations management for enterprises, enterprises should be innovative and open-minded (Motley, 2008). Businesses that have knowledge about what their customers need will now have the opportunity to create new markets that are determined by their own strategy rather than the markets which are determined by other businesses and that they have to act according to their competitors' strategies (Kalkan & Alparslan, 2009).

Compared to the Blue Ocean strategy and the Red Ocean Strategy, it is observed that the Blue Ocean strategy is based on five different elements different from the Red Ocean. These are shown in the table below;

Comparison of Blue Ocean Strategy and Red Ocean Strategy	
Red Ocean Strategy	Blue Ocean Strategy
Competing in the current market area	Competing in the market area of non-contentious
Defeating competition	Making competition pointless
Using the existing demand for itself Value / cost exchange Differentiating the whole system of a business activities or align the entire system of business activities with the strategic choice between low cost	Creating and maintaining new demand Breaking the value-cost exchange Harmonizing the whole system of the company's activities while trying to realize differentiation and low cost.

**Source:** Kim & Mauborgne, 2004: p.5.

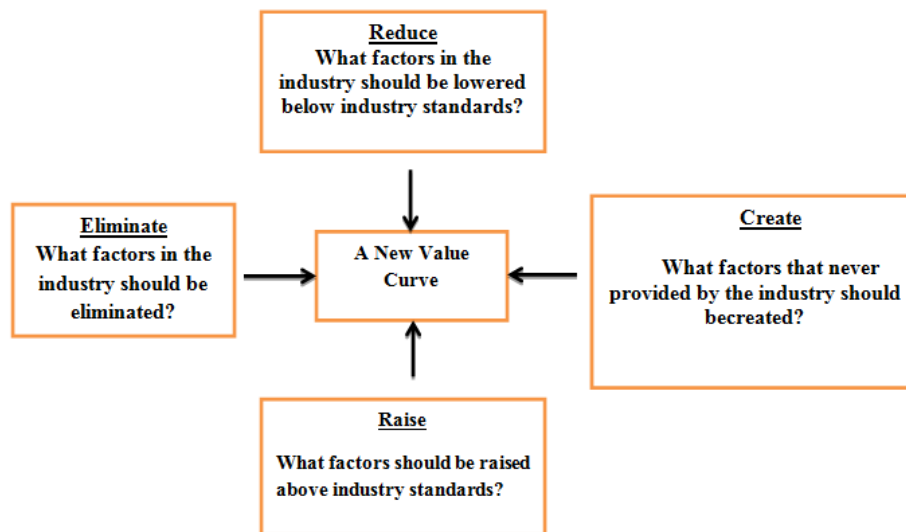
The cornerstone of this theory is the creation of value. Companies operating in many industries follow similar strategies. Therefore, if a business has a single value line, it will be more likely that this line of value will be similar to that of its competitors.

The Blue Ocean Strategy is based on seven basic principles;

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- Restart market boundaries,
- Not to focus on numbers,
- Building the application,
- Designing the quality levels attributed to each activity throughout the value chain,
- To go beyond demand,
- Overcoming key obstacles,
- Achieve the right strategic ranking by using an extreme leadership style (Butler, 2008).

Strategy requires four actions, including lowering, eliminating, creating and raising in order to create a new value (Leavy, 2005).



### 3. Research method and findings

In the research, the branch managers of 3 participation banks were asked open-ended questions about the Blue Ocean Strategy of the banks they work with. All interviews were recorded and archived. Names of banks are given codes and banks are referred to as X Bank, Y Bank and Z Bank. The findings of the interviews are as follows.

#### 3.1. Blue ocean strategies used

The X bank, as a Blue Ocean Strategy, has pursued a strategy for customers who do not want to earn interest income in the economy due to their religious beliefs but who want to make good use of their money in an investment tool other than participation accounts. As a result of this strategy, the X bank manager reported that they both contributed to the national economy and reached more customers. In addition to this, the X Bank underlined that the banking system they used as a result of the investment in technology was used in 20 countries around the world. In addition, in terms of customer satisfaction, they said that they are the only bank in the sector because the transaction performed on the internet such as accounts and credit card using is done without any extra charge.

The Y Bank offers more customer satisfaction-oriented services as a Blue Ocean strategy. As a first in the sector, the bank has started to serve the commercial customers by directing the field sales staff to the needs of customers by fast guiding.

The Z Bank aimed to expand its market share by offering different participation banking products to its customers as Blue Ocean strategy. The bank manager said that the banking sector lags behind commercial banking in terms of the number and

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advantages of participation banking, and that they are developing new products and implementing a strategy of making their banks more attractive to customers.

### 3.2. Red oceans of the participation banking

The managers of all the banks interviewed stated that there were products such as participation accounts, usury loans, check, pos device in the areas that could be defined as the red oceans of the sector. As these products are the same or similar in both participation banks and commercial banks, and customers are more sensitive about the price, they have considered these areas as the red ocean of banking.

### 3.3. Non-price competition policies

The X Bank says that they aim to compete in terms of both product and service. It emphasizes that as a bank, especially, they do not take extra fees such as account usage fees and banking transactions made by using technological means, which make them come to the fore in terms of customer satisfaction. In addition, it underlined that they undertook the first applications in the sector with products such as physical gold collection and lease certificate, by means of which they have reached a large customer base.

In order to solve the problems of customers in the shortest period of time, the Y Bank emphasizes that they formed a team of field sales staff for customer satisfaction and aims to ensure that the existing customer is firstly satisfied and then faithful. They believe that the way to reach more customers is dominated by the satisfaction of existing customers.

The Z Bank tries to operate in the non-price competition area with the products offered to customers for the first time in the sector. As the first participation bank to offer benevolent loan and a personalized and free-of-charge Overdraft Account which is a popular product of commercial banking to its retail customer, it has achieved success in reaching more individual customers.

## 4. Results

Today, competition has the same meaning for every sector in the global sense. In a world where borders are abolished, competition for businesses is made in very difficult conditions. Another thing that this competition brings together is inevitably imitation. For this reason, businesses always need Blue ocean strategies that will pull themselves out of the red oceans in which there are hard rivalries.

Like every commercial enterprise, banks are in constant competition in the sector they are in. When this competition is considered for participation banks, the size of competition increases. Today, the participation banks with 5% market share in the total banking sector in Turkey are trying to get a share of the market that the conventional banks serve on the one hand, and they have to compete with other participation banks on the other hand. For this reason, banks, like commercial enterprises, are constantly striving to develop products or services that will bring a competitive advantage.

As a result of the interviews conducted with three participation banks which set an example for the study, it is seen that participation banks try to achieve the non-price competitive advantage by applying blue ocean strategies due to the intense competition in the finance sector. These institutions, which created a new value as a requirement of the Blue Ocean Strategy, have gradually increased their market share over time.

Of course, it is inevitable to be imitated by competitors as a result of every blue ocean strategy. What is important is the value created by the strategy and the extent to which this innovation can be held and to what extent it can be imitated. Participation banks do not receive interest income only because they operate in an Islamic framework. Therefore, compared to conventional banks, it is even more difficult to compete with conventional banks at the price point in the total banking sector. For this reason, participation banks that want to get more share in the total

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banking sector need strategies to provide them with a competitive advantage outside the price. In other words, they must develop Blue Ocean strategies that will differentiate themselves from the red oceans in which they are already present. As a result, participation banks should develop products and services that will ensure a competitive advantage over the price, in order to have a greater share in the banking sector.

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