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RELATIONSHIP BETWEEN BLUE OCEAN STRATEGY, CUSTOMER BEHAVIOR, AND ISLAMIC BANK PEFORMANCE

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ABSTRACT

There have been many studies conducted to determine the effect of differentiation strategies in business. Even so, there is still little empirical research that focuses on the impact of the blue ocean strategy on customer behavior in the financial services industry, especially banking. This study evaluates the effect of the blue ocean strategy on customer behavior and how it impacts on bank performance. Two hundred eighty-two customers from 20 Islamic commercial banks and Islamic business units filled out an online questionnaire. Overall, we found that the blue ocean strategy had a positive effect on advocacy behavior and customer loyalty. In addition, we find that advocacy does not have a significant effect on perceptions of bank performance, while loyalty has a significant positive effect on perceptions of bank performance. This result has implications for the importance of further research on the effects of the blue ocean strategy and the importance of sharia banking adopting this strategy consciously and systematically to increase customer loyalty and bank performance.

Keywords: blue ocean strategy, consumer behavior, Islamic bank performance

ABSTRAK

Sudah ada banyak penelitian dilakukan untuk mengetahui pengaruh strategi diferensiasi dalam bisnis. Walau begitu, masih sedikit penelitian empiris yang berfokus pada dampak blue ocean strategy pada perilaku nasabah di industri jasa keuangan, khususnya perbankan. Penelitian ini mengevaluasi pengaruh blue ocean strategy terhadap perilaku nasabah dan bagaimana dampaknya pada kinerja bank. Dua ratus delapan puluh dua nasabah dari 20 bank umum syariah dan unit usaha syariah mengisi kuesioner online. Secara keseluruhan, kami menemukan bahwa strategi blue ocean berpengaruh positif pada perilaku advokasi dan loyalitas nasabah. Selain itu, kami menemukan kalau advokasi tidak berpengaruh signifikan pada persepsi kinerja bank, sementara loyalitas berpengaruh positif signifikan pada persepsi kinerja bank. Hasil ini berimplikasi pada pentingnya penelitian lebih lanjut mengenai efek dari strategi blue ocean serta pentingnya perbankan syariah mengadopsi strategi ini secara sadar dan sistematis untuk meningkatkan loyalitas nasabah dan kinerja bank.

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Kata Kunci: blue ocean strategy, perilaku nasabah, kinerja bank syariah

INTRODUCTION

Differentiation is an important strategy for achieving business performance. Literature that highlights differentiation strategies is increasingly popping up and emphasizes the importance of these strategies for creating competitive advantage [1]. The era of the 2000s was marked by the emergence of a number of marketing concepts aimed at differentiation such as the *blue ocean* [2], entrepreneurial marketing, and convergence marketing. *Blue ocean strategy* is directed at the formation of a separate competition area that cannot be touched by competitors. Radzi, Yasin, Zahari, Ahmat, & Ong (2017) and Roth, Coureilles, & Rochelle (2018) found that the blue ocean strategy had an effect on organizational performance. In addition to the performance of Islamic banking, it is also determined by growth, assets, market share and operational activities [3]. In line with this, some researchers prove that some Islamic banks have implemented the *blue ocean strategy* [4].

However, very few studies have attempted to examine this differentiation marketing strategy from a quantitative perspective. The research available is still merely building various case studies to overcome the complexity assumed in marketing research strategies [5].

In particular, the concept of the *blue ocean* is still not much developed [6]. The conceptualization of developing *blue ocean strategies* so far has only one model that departs from the original literature [8]. In this model, the blue ocean strategy is conceived of as a strategy that creates a market space that is not opposed by competitors. It is also a strategy that makes competition irrelevant. In addition, *the blue ocean strategy* is demonstrated by the actions of companies that create and capture new types of requests, which means that companies differentiate. In this case, the company also eliminates the cost-value dilemma. During this time, companies are generally faced with a dilemma between choosing to increase value or save costs. Where the company or banking performance is also influenced by internal and external factors of the bank itself [9]. Many companies are unable to escape this dilemma. If the company tries to increase value, the company is forced to add costs. Vice versa, if the company wants to save costs, then the consequences, product value will not increase or even decrease. *Blue ocean* companies are seen as companies that are able to escape this dilemma by increasing value while saving costs. Consequently, companies achieve differentiation as well as low costs in the differentiation effort.

Several studies linking differentiation strategies with consumer behavior in the banking context turned out to be quite consistent. [10] claims that creative marketing strategies have a significant effect on customer behavior. Katsikeas, Morgan, Leonidou, & Hult (2016) and Kim and Mauborgne (2015) view that marketing strategy is an important factor in customer behavior. Kim and Mauborgne (2004) and Park and Staelin (2015) found that differentiation was an important factor for customer behavior, in addition to service and customer satisfaction factors, the main core of the bank was retaining customers [11]. states that the blue ocean strategy is a strategy that has been well recognized in meeting the needs and choices of

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consumers in ways that are different from those that already exist so that it impacts on positive behavior[12]. For this reason, competition in marketing requires expertise, quality and the ability to innovate products that lead to efficiency [13].

On the other hand, criticism highlights the lack of evidence of the effect of the *blue ocean strategy* on consumer behavior because only companies that succeed in implementing *blue ocean* are examined [14]. If the study uses successful and failed companies in implementing *the blue ocean strategy*, the influence of *blue ocean* on consumer behavior can be more valid. Researchers can be sure whether the company's failure really originated from a conceptual failure of the blue ocean or because there were more inhibiting factors than driving factors.

Even so, research now considers that the blue ocean strategy should have a positive effect on customer behavior. This is supported by studies that show that the blue ocean strategy has a positive effect on getting purchases compared to the competitive strategy (red ocean) [15]. Therefore, the blue ocean strategy can have an important role in the individual behavior of Islamic bank customers in Indonesia. In the context of this study, it is suspected that if the blue ocean strategy is effective, then customers will exhibit positive behavior such as loyalty and advocacy. Therefore, we propose two hypotheses:

Hypothesis 1: blue ocean strategy will increase customer loyalty.

Hypothesis 2: blue ocean strategy will increase customer advocacy

Furthermore, because there is considerable evidence regarding the significant influence of customer behavior on organizational performance in the banking environment[16], including Islamic banks [17], we propose a third hypothesis:

Hypothesis 3: Customer behavior will have a significant positive effect on bank performance.

In line with the three hypotheses above, the main objective of this study is to examine the impact of the blue ocean strategy on customer behavior and its impact on bank performance based on empirical data. We chose Islamic banks as research objects because of the challenges facing Islamic banks in gaining market share. During the 20 years of operation, the market share of Islamic banks has not shifted from the 5% range despite the supportive policies [18]. Therefore, *the blue ocean strategy* can be a potential solution to help Islamic banks move from this position that has never improved.

METHOD

Types of research

This research is a quantitative correlational study using a survey approach in collecting research data.

Research sites

The location of the study was Jakarta with the scope of the study covering the entire territory of the Republic of Indonesia.

Sample

The analysis in this study can be related to practices, attitudes, and performance at the customer level or at the organization. Because the number of Islamic banks is very limited, this research is focused on the

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level of customers by maximizing variations in the Islamic banks studied. A sample of customers is decided at least 200 people with a minimum data collection limit for one week and will be re-evaluated every week.

Research Instruments

The design of this study uses four groups of variables collected from one data source. The first variable group is a group of Islamic bank performance indicators. The second group is the blue ocean strategy. The third group measures customer behavior. The final group measures the control variables. For all variables, the higher the score the more positive the response is given.

Variabel Dependen

The dependent variable in this study is the performance of Islamic banks. The dependent variable in this study measures customer perceptions of a number of performance parameters. Using a scale developed [19], We use three indicators that must be answered by respondents to evaluate the performance of Islamic banks based on their observations. Each question is ranked using a different scale. The first item, what do you think of the performance of this bank? Measured from a scale of 1 = very bad to 5 = very good. The second item is how do you think the benefits of this bank, measured on a scale of 1 = very low to 5 = very high. The third question asks about the value of the bank to the customer, measured on a scale of 1 = very worthless to 5 = very valuable.

Variabel independen

We measure the blue ocean strategy using operationalization of [22] over the blue ocean strategy dimensions [24]. All blue ocean strategy scales in this study are based on six item Likert type items ranging from strongly disagree to strongly agree. Eight items are used to measure the dimensions of creating unmatched market space. Five items are used to measure dimensions making competition irrelevant. Six items are used to measure the dimensions of creating and getting demand. Nine items are used to measure the dimension of solving value-cost exchanges. Four items are used to measure the dimensions of reaching out to differentiation and low cost. Two forms of customer behavior are examined in this study: loyalty and advocacy. To assess customer loyalty, i.e. customer loyalty while being an Islamic bank customer, we use an instrument consisting of four items, as used [20]. A range of responses from 1 = strongly disagree to 6 = strongly agree. To measure advocacy, we adapted the four-item scale that Ojeme et al also used [21] . These items are intended to measure the degree of telling of positive things and recommendations given by customers to others to become customers of Islamic banks. A range of responses from 1 = strongly disagree to 6 = strongly agree.

Variabel control

Customer knowledge can be influenced by the location of the bank serving customers and also the experience of respondents in becoming customers, as well as the banking and institutional paradigm of the globalization era in competition [25]. Similarly, ownership, size and age of banks can play a role in driving strategy and performance. Therefore, the control variables in this model are ownership, size, and age of the bank, age of the customer, gender, location of the bank, and the period of time of being a customer. Ownership, size, age of the bank, and location of the bank are considered as control variables at the bank level while the age of the customer, gender,

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tenure of customers, and location of the bank are considered control variables at the customer level. The location of the bank becomes the control variable at two levels at the same time because it is assumed that the customer lives in the same location as the location of the bank.

This study uses dummy variables to find out whether a bank is a state (1) or private (2) bank and whether it is a full bank (1) or sharia business unit (2). The status of the bank as a regional development bank (1) or national bank (2) is used as a proxy for the size of the bank. The location of the bank is divided into two: outside Java (1) and Java Island (2). The age of the bank is calculated from 2020 minus the year the bank was founded. Age and tenure of customers are calculated on a scale of 1-5. The age of the customer is calculated with a score of 1 = 0-15 years, 2 = 15-25 years, 3 = 25-35 years, 4 = 35-50 years, 5 = 50-65 years, and 6 = 65 years and above. The period of being a customer is divided into 1 = 0-2 years, 2 = 3-5 years, 3 = 6-8 years, 4 = 10 years or more.

Data collection technique

Respondents were asked to be willing to fill out an online questionnaire made on the Google Form site. Online questionnaires were distributed to a number of Islamic bank customers on social media Facebook, Twitter and WA groups known by the research team. Furthermore, based on the initial sample, a snowball sampling method is used to get more respondents by asking respondents to recommend people who are also customers of Islamic banks. After one week, the team checked the number of samples that responded and decided to stop if the sample had exceeded 200 people.

Data analysis

We tested the hypothesis in this study in three stages. First, we examine the correlation between the control variable and the dependent variable. Second, we examine the dimensionality of the model with Confirmatory Factor Analysis. Third, we use the Structural Equation Model to explore the research model.

RESULTS AND DISCUSSION

After one week, the questionnaire was completed by 282 respondents. Customers represent 20 banks or sharia business units in Indonesia, of which 10 are state-owned banks, 13 are Islamic banks, and six of them are Regional Development Banks. The average age of the bank is 14 years with the oldest being 29 years old and the youngest being four years old.

Fifty-five percent (156) clients are female and the remaining 45 percent are male. The age distribution of customers is quite evenly distributed with the largest group aged 35-50 years as much as 32%. The most respondents were outside Java (73%, 206 people). The experience of being the most customer is 6-8 years, as many as 40.8% (115 people).

We conducted a reliability analysis using Cronbach’s alpha and found the value of reliability of perceptions of Islamic bank performance of 0.898. Meanwhile, for the dimension of creating an unmatched market space, the score obtained is between 2.00 and 5.75. Cronbach’s alpha for this scale is 0.925. The dimension of making competition irrelevant has alpha 0.925. Scores to make competition irrelevant range between 1.00 and 6.00. The dimension of creating and getting requests has a range of scores between 1.00 and 6.00. Cronbach's alpha for this scale is 0.927. The score obtained for the dimension solves the exchange of

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cost-values between 1.00 and 5.78. Cronbach's alpha for this scale is 0.955. The dimension of reaching out to differentiation and low cost has alpha 0.931. Scores to reach differentiation and low cost range between 1.00 and 5.75. The loyalty variable has α = 0.842 while advocacy has α = 0.888.

Descriptive statistical analysis of the variables used in the hypothesis test is presented in Table 1. Bivariate correlation analysis provides the feasibility of certain control variables to be included in subsequent analyzes. Correlation analysis results found three out of five control variables at the bank level showed a significant correlation with bank performance, namely ownership, bank age, and bank location. Meanwhile, there are two control variables at the customer level that show a significant correlation with one of the two customer behavior variables, namely the age of the customer with advocacy and the location of the customer with loyalty. In line with this finding, four of the eight control variables included in this study correspond to the significant correlations found.

Table 1
Mean, standard deviation, and correlation of control variables and endogenous variables

	Loyalti	Advokasi	Peformance
Ownership	-.284**	-.142*	-.283**
Status	-0.06	-0.07	-0.05
Size	-0.02	-0.02	0.02
Bank Age	-.186**	-0.11	-.221**
Gender	0.01	-0.01	0
Custumer Age	-0.01	-.159**	0.09
Location	-.144*	-0.11	-.121*
Long time custumer	-0.03	0.01	.179**

N = 282; * p <0.05, ** p < 0.01

Next, a confirmatory factor analysis was carried out on 32 items that measured the blue ocean strategy. The results support a five-factor structure with a normed fit-index (NFI) of 0.91 and a root mean-square error of approximation (RMSEA) of 0.06. CFI is also above 0.90 which is 0.951, indicating a very good match.

The next step is to run a structural model that links the research variables in the hypothesis and control variables. The initial sample of 282 people was reduced to 265 by subtracting respondents who did not name their banks. This is done because ownership and bank age are the control variables in the structural model.

According to structural equation analysis, the analyzed model shows a good fit of the model, indicated by the significant square value of 1842.18 (df = 1014, p <0.00). In addition, the goodness of fit index (GFI) was 0.77, the adjusted goodness of fit index (AGFI) was 0.75, the normed fit index (NFI) was 0.85, the comparative fit index (CFI) was 0.92, and the root mean square error of approximation (CFI) RMSEA) of 0.06.

Because not all parameters of the model's compatibility are good, a revision step is made in the initial model. The revision was made by making the blue ocean strategy variable a unidimensional variable in which the dimensions were combined and became a composite indicator. The revised model corresponds to data with the square value of 460.58 (df = 155, p <0.05). Table 2 shows the following results: GFI = 0.86, AGFI = 0.806, NFI = 0.89, CFI = 0.92, and RMSEA = 0.09. By comparing the initial model with the revision, the revised model shows better compatibility in GFI, AGFI, and NFI while worse in the RMSEA and CMIN / DF parameters. This shows that the two models do not differ much in quality. Moreover, when looking at the relationships between variables, the degree

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of significance as well the direction of the relationship does not differ between the two models. For the purpose of description, this study uses a revised model.

Table 2
Comparison of research models

Model	CMIN/DF	RMSEA	GFI	AGFI	NFI	CFI
Awal	1.82	0.06	0.77	0.75	0.85	0.92
Revised	2.97	0.09	0.86	0.81	0.89	0.92

An examination of standard parameter estimates shows that two of the three hypotheses are fully supported because the relationship is found to be significant and in direct direction (see Figure 1). Specifically, the estimated parameter statistically shows a significant value between blue ocean strategy and loyalty (b = 0.59, p <0.01) and on the path between blue ocean strategy and advocacy (b = 0.26, p <0.01). As expected, loyalty and advocacy have a positive effect on perceived organizational performance. Even so, only loyalty has a significant effect, while advocacy fails to show a significant effect on perceptions of performance. Consistent with Hypotheses 1 and 2, the analysis shows that the blue ocean strategy has a positive and significant direct effect on customer behavior. Even so, Hypothesis 3 is only partially supported because of the two customer behavior variables, only loyalty has a significant effect on perceptions of bank performance.

Figure 1 *Analysis Results Model*

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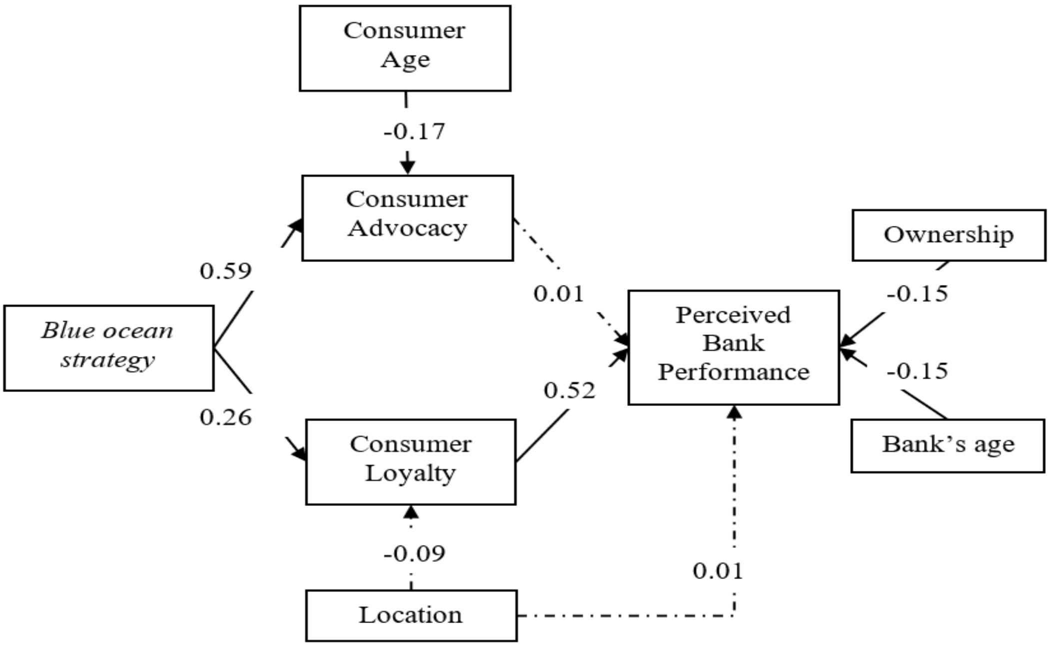

Quadratic correlation reflects the proportion of variants given by the predictor. Blue ocean strategy and customer age explain 10 percent of the variance in advocacy. Blue ocean strategy and location explain 37 percent of the variance of loyalty. Meanwhile, advocacy, loyalty, bank location, bank age, and ownership explained 36 percent of the variant perception of sharia bank performance.

In this study, we evaluate the blue ocean strategy and consumer behavior that help improve the performance of Islamic banking. The purpose of this study is to investigate whether the blue ocean strategy can affect customer behavior.

The data shows that there is a significant relationship between blue ocean strategy and customer behavior. Overall, the blue ocean strategy, as a creative strategy, can improve customer behavior in the form of advocacy and loyalty (Ishaq dan Hussain, 2016). Burke et al (2016) try to check whether the blue ocean strategy influences consumer behavior in the retail industry. They found that blue ocean strategy can influence consumer behavior by creating attractive new market space. In the same way, Kim and Mauborgne (2004) and Park and Stealin (2015) shows that differentiation strategies have a positive effect on consumer behavior. Our data also shows the same effect, showing support that blue ocean strategy is a marketing method that can lead to changes in customer behavior to be more positive.

Tesch (2017) explains the relationship between blue ocean strategy and customer behavior occurs because this strategy offers the fulfillment of consumers' needs and choices in different and attractive ways. In accordance with our findings, Islamic bank customers appear to be advocating and being loyal to their banks because of a marketing strategy that meets their needs for new things.

Blue ocean strategy creates new products that are different from existing products so that it fills needs that were not

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yet met (Park dan Stealin, 2019). Profits then flow from new markets that are open, both by markets that are actually filled by old and new consumers. If this market is filled with old consumers, consumer loyalty is created. Our results appear to support the theoretical view that the blue ocean strategy is able to encourage consumer loyalty.

The research model also shows that the blue ocean strategy influences customer advocacy. One way to explain how advocacy can increase because of the blue ocean strategy is that old customers are the first to recognize new markets being created. Old customers then recognize the people in the network who really need the new service. This causes stimulation of consumer advocacy (Christodoulou and Langley, 2019).

Loyalty leads to positive customer behavior that encourages sales (de Leaniz and Rodriguez, 2016). Purchases by loyal customers in turn lead to increased business performance and business sustainability (Omeregie et al, 2019). This study indicates a positive and significant relationship between loyalty and perceived organizational performance. This shows that loyal customers help in improving bank performance by making more purchases at the organization.

An interesting finding from our research is that advocacy has no effect on perceptions of bank performance. This result is consistent with research Rosario, Sotgiu, de Valck, & Bijmolt (2016) if advocacy has different effects depending on many parameters such as volume, product, novelty, platform, and so on. One possible explanation for this finding is the low volume of advocacy so that even though the customer is advocating, this advocacy is not intense and is not able to help in increasing sales performance. Future studies also need to examine whether there is a significant effect when advocacy variables are measured by frequency, rather than by agreement.

It can be assumed that customer loyalty and advocacy depends on demographic characteristics. We have included control variables in the form of age and location of the customer and found a negative relationship of age to advocacy and an insignificant relationship to location to loyalty. Further research needs to identify whether young clients do have a better level of advocacy than older clients.

A number of other variables can be integrated with existing research models. For example, entrepreneurial marketing variables can positively influence sustainable competitive advantage (Khouroh et al., 2020). In addition, research has found that m-banking services improve customer behavior and banking performance (Sharma & Al-Muharrami, 2018; Tam & Oliveira, 2016).

CONCLUSION

This research contributes to the literature on the role of blue ocean strategy in the banking context. Research This study is also the first to explore blue ocean strategy and customer behavior in the banking context. It finds the effect of the blue ocean strategy on customer behavior and its impact on the perception of Islamic banking performance. Therefore, to improve performance, Islamic banks must have a blue ocean strategy that is carried out consciously and systematically directed at new and old customers.

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