

EQUITY SURPLUS THEORY (THE PURPLE SKY MODEL)

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ABSTRACT

In the red ocean model competition prevails and resources are spent on weakening each of the parties within a market. With the blue ocean model [5] an uncontested market is created, but it lacks evidence of whether or not this market will be sustainable. A market will be created due to innovation (or any other advantage) but if there is no long-term viability, it will give birth to a temporary monopoly until the market turns back into a red ocean. In turn, if it can sustain the uncontested market, this will happen because of elevated barriers to entry, which means that a natural monopoly has been created and sustainability along with abundance will suffocate within the blue ocean [2, 6].

Numerous studies [1, 3, 4] have revealed that competition is able to improve products and/or organizations, while lack of it can lead to serious strategic failures. Innovation (as any comparative or absolute advantage) should be the instigator of healthy business strategy and not the seed of monopoly.

Expanding the above to equity theory, red ocean strategy refers to a quasi-steady equity equilibrium in a market, while blue ocean strategy to a static (and sole) output/input equity ratio.

Equity theory is differentiated and extended to meet the theory of efficient markets [6] and thus equity surplus theory is formulated. It consists of the synergy of extended equity theory and the theory of efficient markets.

The strategic theory of equity surplus generates uncontested markets and simultaneously is the underlying factor of their sustainability. This is because it is not limited to value surplus (actual or perceived), but it is based in equity surplus.

Healthy competition and efficient benchmarking will become the cornerstone of innovation that will create efficient markets through the diversity and abundance of equity surplus. By extension, competition will not be irrelevant, but a determinant parameter of efficiency [7].

Especially in markets undergoing crises, said model can constitute a practical asset for effective strategic decisions. Generalizing this principle, a market that contains parties that follow this strategic theory is sine qua non of equity surplus.

Keywords: Equity surplus theory, purple sky model, strategic planning, strategic models

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