

Emergent strategy development and resource allocation process



The business environment is subjected to rapid changes and in such scenarios organizations must change incrementally and adapt strategy on the basis of organizational learning rather than planning ahead (Campbell et al., 2002). Emergent strategy emerges over time. Barney & Hesterley 2010 suggest that emergent strategy is very important for entrepreneurial firms due to the high uncertainty and high unpredictability of the business conditions.

According to Johnson et al., 2008, emergent strategy can be developed through four ways.

Logical Incrementalism:

According to Quinn, “ Logical incrementalism is the development of strategy by experimentation and learning from partial commitments rather than through global formulation of total strategies”. Dynamic changes are required to respond to the unexpected changes in the environment rather than planning the strategic direction well ahead (Johnson et al., 2005).

Resource Allocation routines:

Resource allocation and management has become a vital component of the firms, since effective allocation of resources eases the operations of the firm and also helps in completing their projects within the specified deadline.

According to Barney & Hesterley 2010, the organizational culture and ritual in a firm that would direct all the employees in the organization to define their jobs in competitive and fiscal terms leads to gain sustainable competitive advantage. As an example, Honda was able to sell their

Supercub motorcycles in the American market through their effective resource allocation process.

Cultural Processes:

The culture within the organization plays an imperative role in the incremental strategy development if it is harmonized with the environmental changes. Incompetent organizational culture may act as a barrier for a firm to keep their strategic directions in line with the environmental changes (Johnson et al., 2005). According to Pearce & Robinson 2009, the entity of today's global firms is that organizational culture should be acquainted with cultural diversity. Managing the relationship between strategy and culture in the firm is significant for the successful implementation of the strategy.

Organizational politics:

The Political observation of strategy development is that strategies develop as a result of processes of haggling and negotiation among the influential stakeholders of the firm. Political action is often perceived as an inevitable part of the strategy development process in an organization (Johnson et al., 2005).

To conclude, although the process of emergent strategy development lags sufficient planning since it arises over time, it could be significant for organizations operating in a changing business environment.

Using the website of a large organization find its organizational chart. Explain why the organization is structured in the way illustrated.

Procter and Gamble (P&G) is the world's biggest maker of consumer products and is well known for their innovation. Over the years P&G has considered organizational structure as an essential part of their growth. The brand portfolio is immense (Appendix 1). The decision making at the top management level is made by the board of directors. Each functional operations of the P&G group are discretely controlled by their relevant management.

In the early 90's, P&G was structured in the forms of global matrix structure to meet the consumer demands in each region as shown in Figure 1.

This structure allowed the company to create global technical units in distinct regions each with a core competency in a particular category of products. The global category Presidents, R&D department and VP's developed the product category stage technologies that could be functional for global branding strategies. The creation of influential and self-governing global functions endorsed the improvement in knowledge levels, transfer of best practices and eradication of intraregional redundancies. The matrix structure proved to be a massive advantage for P&G since it combined the manufacturing, purchasing, trading and distributing into a single global supply chain (Piskorski & Spadini, 2007).

Figure1: Procter & Gamble Organizational Structure in 1990's

(Source: Grant, 2010, pp. 616)

Although strong regional functions provided enormous competitive advantages, the matrix structure was never symmetrical in P&G. Each function focused more on their own strategic program and development in the company rather than combining with other functional units to develop the company's position in the market place. With problems in their structure and plans for further diversification, P&G carried out a six year restructuring plan through which they restructured from global matrix structure to global business units (GBU). The current organizational structure of P&G is shown below in Figure 2.

Figure 2: Current Organizational Structure of P&G

(Source: Procter & Gamble)

The purpose of each level in the current structure is given in Appendix 2. The primary focus of the global business units is on the product and market development and the focus of the President's in GBU's is to standardize the manufacturing process and to simplify the brand portfolio. For example GBU for Baby care division proposed a plan to reduce the several numbers of diaper-manufacturing processes into a single standard process (Grant, 2010).

This structure increased dexterity and decreased costs through accelerated standards of manufacturing processes and better coordination of promotional movements across countries (Piskorski & Spadini, 2007).

The organization is huge and they are diversified across the globe with a massive brand portfolio. With product specialization and marketing being their main focus and being successful in the followed structure for more than a decade, global business units proves to be the suitable structure for P&G.

Four Tenets of Organizational Learning:

Learning is an integral part of an organization and it can lead to strategic directions and decisions. Organizational learning is closely related to the logical approach of strategy and firms must persistently learn about themselves and their operating environment (Campbell et al., 2002).

According to Johnson et al., 2008, structure and culture of an organization contributes widely towards organizational learning; formal structures might stifle the organizational learning.

Managers would be playing a less directive and a more facilitative role. Each individual in the organization might specialize in certain skills. Organizational performance will improve only when the individual knowledge gets transferred into organizational knowledge. Managers are completely responsible for the sharing of knowledge in the organization through knowledge management skills (Campbell et al., 2002).

Managers can arrange knowledge transfer sessions on a customary basis in order to improve the core competencies of employees and thereby contributing to organizational learning. They can also emphasize the importance of knowledge sharing and how it might impact on the performance of organizations among the employees.

Information flows and relationships between people should happen both horizontally and vertically. Organizations should possess a culture in which the communication and sharing of knowledge between the employees among all the levels is encouraged. The management should persuade sharing of information and knowledge among the organization, so that all employees become susceptible to the changes happening around them and contribute towards organizational objectives (Johnson et al., 2008).

Organizations are pluralistic, in which even distinct and divergent ideas are welcomed and surfaced. In pluralistic settings different ideas emerge from different levels of people in the organization. Although being pluralistic might provide an advantage in learning for some organizations, it is very risky for an organization to be pluralistic since it might deceive knowledge.

Experimentation is the norm, trying out new ideas might become an important part of the learning process. For example; Wipro Technologies, one of the leading software companies in India tried developing a corporate extensive knowledge management system called KNET through which employees can track, access, exploit and produce knowledge. Although they were not using KNET widely in the initial years, it proved to be very valuable in the recent years of their success. Following the success of KNET, Wipro has developed the same portal system for Microsoft, one of the major clients of Wipro (Wipro, 2010).

Organizational learning could be a crucial factor for the companies in gaining advantage in the near future. All the four tenets could be critical in

organizations where emergent strategy is considered as a primary source of strategy development.

Does structure follow strategy or does strategy follow structure?

Organizations seek new strategies for the reason that they offer new opportunities and potential advantages. Before implementing the strategy, a variety of factors needs to be considered because it involves change and risk. The link between structure and strategy is an important aspect to be considered before implementing the strategy. Structure of an organization is a vital factor since the change in corporate strategy might require some sort of change in the manner a firm is structured and in the type of proficiency required in specific positions of the firm (Wheelen & Hunger, 2008).

According to Thomson & Martin 2008, although structures are designed primarily and changed later to fit the intended strategies of an organization, the daily activities and behaviors of people within the structure might lead to significant emergent strategies.

A traditional study conducted by Chandler concludes that structure follows strategy after he analyzed the changes in some large U. S. corporations. For example, in the periods of First World War DuPont an explosive company diversified its product range. Research shows that their business failed since they followed the same centralized organizational structure even after diversifying their product range. When they realized the problem, they shifted to decentralized structure since it was congruent with their chosen diversification strategy (Chandler, 1962).

In the case of DuPont, the problem was with the structure and if their structure was congruent with their strategy, they would not have faced the problem. Similarly General Motors (GM) also shifted from centralized to decentralized multidivisional structure in 1920s and they found it to be intensely effective in permitting the freedom for product development to each division.

Strategy can also follow structure. Although there is no empirical research conducted on structure directing to strategy, many authors support this fact. Although Chandler inscribes that structure follows strategy he has also told that due to the structural changes in GM, brilliant strategies were framed in the making and selling of their products (Hall and Saias, 1980).

To conclude, although it is not erroneous to say that structure follows strategy since it is true in most of the cases, proficient organizational structure may also lead to the formation of new strategies. It might depend upon the type of the industry, markets and environments the firms are operating with.

Give an example of an organization where resource allocation process (RAP) form part of strategy development.

Resource Allocation Process (RAP):

RAP is a composite and subtle process which occurs on a daily basis in all organizations. If RAP is not prioritized and linked with the intended strategy of an organization, it might create a disparity between the intended and actual strategy of the organization. In large diversified organizations, the centre plays a vital role in allocating the resources among the diverse

strategies proposed by their divisional units. Even small companies operate in the same mechanism but on an informal basis (Lynch, 2009).

Both emergent and intended strategic ideas can be filtered through RAP as shown in Figure 1.

Figure 1:

(Source: Christensen & Donovan, 2000)

Honda at American Markets:

During the post world war era, Honda was the supplier of small Supercub motorcycles in the Japanese market. Following the success in the Japanese market, Honda thought of entering the North American market by manufacturing large over the road bikes, since it was suited for American markets. It sent three of its employees to Los Angeles to launch the endeavor. But Honda's large bikes were unsuccessful in American markets. After experiencing the market conditions in America, the three employees proposed a plan to sell their small Supercub motorcycles in the American market since they received an informal order for sport bikes from the buyer for the sports equipment of Sears. But the top management filtered their ideas since their strategy in American market were to sell large over the road bikes. After further failure in selling the large bikes, the management considered the plan and the results were surprising. Honda became a successful company in selling its Supercub in the American market (Henry, 2008).

RAP in Honda:

After this experience Honda approached things in a different manner. As manufacturing volume increased, they planned for some price reduction strategies through appropriate RAP. They became the market leader and competitors were unable to compete with Honda. In terms of the Figure 1, Honda entered American market with an intended strategy and immediately after that although it got emergent inputs such as Sear's buyer's request of their Supercub, company's RAP filtered out those inputs, since it was not matching with its strategy. Once they persuaded corporate management to change the filter in the RAP, the constituents of winning strategy emerged.

Thus, RAP played a vital role in the formation of emergent strategies and in achieving the intended strategies for Honda's success in the US motorcycle industry.