

The processes of emergent strategy development



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“ Emergent strategy comes about through everyday routines, activities and processes in organizations” (Johnson, et. al. 2005, Pp 408). It occurs by chance or happens within the organization without any long term planning.

There are four organizational processes of emergent strategy development:

Logical Incrementalism

Resource allocation routines

Cultural processes

Organizational politics

Logical Incrementalism - The development of strategy by experimentation and learning from partial commitments rather than through global formulations of total strategies (Quinn and Voyer, 2003. Pp 408)

Key features of logical incremental approach are

Managers have a general view rather than specific view of future direction

Develop strong, flexible core business and experiment with ‘ side bet’ ventures

Top managers utilize mix of formal/informal social and political to pull together emerging pattern of strategies.

Resource allocation routines - strategies emerge through formalized routines and systems of the organization (Johnson, et. al. 2005, Pp 411).

Key features of resource allocation routines approach are

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Day to day decision making about resource allocation across businesses

Decisions may be made at a lower level than conventionally thought to be strategic

Managers proposals competing for funds

Collective effects of such decisions guide the strategy.

Cultural Processes - Incremental strategy development can be explained as the outcome of the influence of organization culture (Johnson, et. al. 2005, Pp 416).

Key features are

Self-reinforcing model

Over time may result in strategic drift

The model and the way we do things around here mean that managers try to minimize haziness/ambiguity by defining situation as something familiar.

Organizational politics - Political view of strategy development is that strategies develop as the outcome of processes of bargaining and negotiation among powerful internal or external interest groups or stakeholders (Johnson, et. al. 2005, Pp 414).

Negative influence

Powerful individuals may influence identification of key issues and strategies selected

Obstructs analysis and rational thinking

Results in emergent or incremental patterns of strategic development

Emphasis or de-emphasis of data can be source of power

Positive influence

Champions will support new ideas.

Political conflict and tensions may produce new ideas

For example –

Motorola has successfully met the needs of emerging markets by using its fundamental technological strengths in electronic components to progress from supplying TVs and car radios to offering telecommunication services.

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

The General Electric Company or GE is an American based multinational corporation incorporated in the state of New York. The company operates through seven segments: Global Growth & Operations, Energy, Capital, Home & Business Solutions, Healthcare, Aviation and Transportation. The organizational chart of the company is shown below.

Source: (GE, 2011)

GE organizational chart represents the multidivisional structure because, is built up of separate divisions on the basis of products or services. Each division responds to the specific requirements of its products or market

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strategy using its own set of functional departments (Johnson, et. al. 2005, Pp 438).

The main potential advantages for General Electric of having multidivisional structure are: (Grant, 2005) (Johnson, et. al. 2005, Pp 439) (Pearce II and Robinson, 2009, Pp 344)

Top management has limited decision making capacity

Corporate management as interface between shareholders and business level managers.

Efficient allocation of resources through internal capital and labor markets

Flexible - add or divert divisions

Increases focus on products, markets and quick response to change

Control by performance

Strong identification with products

Opportunity for employees to learn other functions

But there are some strategic disadvantages for General Electric of having multidivisional structure are:

Difficult to achieve clear division of decision making between corporate and divisional levels.

Increases cost incurred through duplication functions

Fragmentation and non co-operation.

Explain the four tenets of organisational learning.

“ The learning organization is capable of continual regeneration from the variety of knowledge, experience and skills of individuals within a culture which encourages mutual questioning and challenge around a shared purpose or vision” (Johnson, et. al. 2005, Pp 421).

Tenets of Organizational Learning:

Managers facilitate rather than direct

Information flows and relationships are lateral as well as vertical

Organisations are pluralistic

Experimentation is the norm

Managers have a generalized rather than specific view of where they want the organization to be in the future and try to move towards this position incrementally.

And managers may seek to develop a strong, secure, but flexible core business. They will then build on the experience gained in that business to inform decisions both about its development and experimentation with side bet ventures.

Does structure follow strategy or does strategy follow structure?

There are two views on the relationship between Structure and Strategy.

Structure follow Strategy

Strategy follow Structure

The first observation put forward by Alfred Chandler (1962), was based on a study of the development of large corporations in the United States. The focus of the study was on the historical development of the businesses and the different types of organizational structure appropriate at each of the key stages of development.

Chandler and Cain (1979) says that in all sides of an organization's structure, forms the creation of divisions and departments to the designation of reporting relationships, and should be made while keeping the organizations strategic intent in mind. He observed that the transition from one form of structure to another usually did not take place as soon as the key strategic issue changed. He suggested that although the entrepreneurs were typically very astute at strategy development and implementation, they tended to know very little about organization structure. From the research he concluded that Structure follows Strategy.

The second view, Strategy follows structure is based on the idea that managers already working within a particular organizational structure will take the structure for granted and only consider strategies that will fit with the existing structure. The reason for managerial reluctance to change structure is associated with the time consuming effort involved in such a process and the fact that some managers will have vested interests in maintaining the structure as it is.

According to Lynch (2006), strategy and structure are interlinked. It may not be optimal for an organization to develop its structure after it has developed its strategy.

Strategy and the structure associated with it may need to develop at the same time in an experimental way: as the strategy develops, so does the structure. The organizations learn to adapt to its changing environment and to its changing resources, especially if such change is radical.

If the strategy process is emergent, then the learning and experimentation involved may need a more open and less formal organization structure.

Finally, an organization must achieve a fit, or congruence, between strategy and structure. Since different strategies and environments place different demands on an organization, they call for different structural responses.

Give an example of an organisation where resource allocation processes (RAP) form part of strategy development.

“ The Resource Allocation Process explanation of strategy development is that realized strategies emerge as a result of the way resources are allocated in organizations” (Johnson, et. al. 2008, Pp 411).

Bower and Gilbert argues that strategy is not like a software program that you install and it suddenly all works, it is a fluid process that is shaped by a range of internal and external forces (Bower and Gilbert, 2005).

It is claimed that resource allocation must be viewed as something that gets in the way of implementing ideas but understood as a force that can lead a company in new and unforeseen directions.

The role of resource allocation in strategy making: The case of Intel

The Intel case shows clearly how resource allocation has a direct impact upon the effective strategy of a company. Intel started doing semiconductor memories; more specifically they had a dominant position in the production of DRAMs (Dynamic Random Access Memory).

In 1971 an Intel engineer invented the microprocessor during a funded development project for a Japanese calculator company. Top managers must know the track record of the people who are making resource allocation proposals, recognize the strategic issues at stake; reach down to operational managers to work across division lines (Bower and Gilbert, 2007). Intel's sales of microprocessors grew gradually in a host of small, emerging applications.

In 1980's the Japanese DRAM makers intensifies their attack on the US market causing pricing levels to drop (Johnson, et. al. 2005, Pp 430). But, microprocessors consistently had the most attractive gross margins in Intel's product portfolio, and the resource allocation process therefore systematically diverted manufacturing capacity away from DRAMs and into microprocessors.

From this process we can see how the resource allocation and not the deliberate strategy was in reality guiding the company.

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