Overall purpose and scope of an organisation

The concept of corporate strategy battles with the perennial issue of determining the overall purpose and scope of an organisation. From a contemporary perspective, it involves the specification of long-term goals and objectives that will add value to the business and cope with the uncertainty of modern times. As a practice, it consists of adopting courses of action and allocating resources in ways necessary for carrying out the overall objectives.

Widely recognised as the most principal theories for strategy development, the prescriptive and emergent approaches must be examined within the context of an increasingly dynamic, highly competitive and global business environment. Powerful external forces are driving organisations to reduce costs, enhance processes and identify new opportunities for growth.

Many businesses are compelled to make dramatic improvements not only to compete and prosper but also merely to survive. This brings to the fore the importance of determining how effectively the prescriptive and emergent approaches can meet the needs of today’s businesses when formulating strategy.

Over the years two main schools of thought have developed; the rational (prescriptive) and dynamic (emergent) approach. Theorists and practitioners who adopt the rational approach to strategic management argue that a rational approach does help an organisation cope with the complexities of its environment whereas other theorists argue that the rational approach avoids the complexity and dynamism of the real corporate life.

This paper is going to explore and critically evaluate the two approaches to strategic management and in my opinion defend why the emergent approach is more suitable than the prescriptive approach.

Strategic Management

A strategy can be thought of in either of two ways: (1) as a pattern that emerges in a sequence of decisions over time, or (2) as an organizational plan of action that is intended to move a company toward the achievement of its shorter – term goals and, ultimately, its fundamental purposes. In some organizations, particularly those in rapidly changing environments and in small businesses, strategies are not planned in the formal sense of the word. Instead, managers seize opportunities as they come up, but within guidelines or boundaries defined by the firm’s strategic direction or mission. In those cases, the strategy reflects the insight and intuition of the strategist or business owner, and it becomes clear over time as a pattern in a stream of decisions.

Strategic management is a process through which organisations analyse and learn from their internal and external environments, establish strategic direction, create strategies that are intended to move the organization in that direction, and implement those strategies, all in an effort to satisfy key stakeholders (Jeffrey and Caron 1998). Stakeholders are groups or individuals who can significantly affect or are significantly affected by an organization’s activities. An organization defines who its key stakeholders are, but they typically include customers, employees, and shareholders or owners, among others. Although larger companies tend to use the strategic management process, this process is also a vital part of decision making in smaller companies.

The increasing importance of strategic management may be a result of several trends. Increasing competition in most industries has made it difficult for some companies to compete. Modern and cheaper transportation and communication have led to increasing global trade and awareness, technological development has led to accelerated changes in the global economy.

Regardless of the reasons, the past two decades have seen a surge in interest in strategic management. Many perspectives on strategic management and the strategic management process have emerged.

The Prescriptive Approach

The prescriptive approach regards strategy development as a systematised and deterministic process where analysis of the organisation, its performance and external environment leads to the formation of a rational, long-term plan. Senior management is in charge of defining the final objectives and the plan is then put into action through the successive layers of the organisation.

Techniques which feed this process include Porter's heavily structured Five Forces model for analysing industry and Value Chain Analysis which highlights existing capabilities as a solid basis for competitive advantage.

It is pointed out by Ansoff that firms in fast-paced, competitive environments who use a systematic process for strategic planning very often go on to dominate their marketplace. Their logical, analytical approach allows them to devise predictive and pre-emptive strategies from which they can meet new opportunities head on. For instance, in 1995 EasyJet used incredible foresight to introduce low cost flights allowing it to take advantage of a more cost-conscious European Market.

What’s more, this approach makes it possible to organise complex activities and exercise a greater degree of control over different business units. For example, Tesco’s planning process resulted in well defined long-term goals and clear boundaries for its UK core business, retail service, non-food and international sectors. It has succeeded in achieving consistent growth and profit in all of these areas over recent years.

Strategy formation which places a lot of weight on existing capability strengths is thought to be a secure basis on which a firm should define itself and optimise its position, particularly in times of rapid and turbulent change. 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 telecommunications services.

From a contrary perspective, Johnson states that the prescriptive model contains many assumptions that are unsustainable in today’s business world. The logical approach implies that strategy development is always deliberate and that strategies are realised according to plan.

However, empirical research by Mintzberg discounts this, highlighting that realised strategy tends to be only 10 to 30 percent of the intended strategy.

This is mainly because unpredictable events, such as the introduction of new regulations or technologies, will regularly act to force the original strategy off its course.

Additionally, the prescriptive approach to planning falls short in allowing for any learned elements to be absorbed into the strategy and so can limit an organisations ability to respond flexibly in today's rapidly changing environment. The narrow-minded manner in which it focuses on established areas of business and capabilities can hinder serious transformational change where reinvention is required.

This traditional approach's process for developing strategy consists of analysing the internal and external environments of the company to arrive at organizational strengths, weaknesses, opportunities, and threats (SWOT). The results from this " situation analysis" as this process is sometimes called, are the basis for developing missions, goals, and strategies. In general, a company should select strategies that (1) take advantage of organizational strengths and environmental opportunities or (2) neutralize or overcome organizational weaknesses and environmental threats. After strategies are formulated, plans for implementing them are established and carried out

A further criticism is that the prescriptive model fails to complement modern organisational cultures where employees at lower levels are included in the decision making process. This type of involvement is frequently found in small or medium sized businesses. As a result, organisational creativity can be stifled and employee dissonance may occur as it is at these levels that work processes are most fully understood.

Eg. Of Emergent Strategy

Wal-Mart

Sam Walton opened the first Wal-Mart in the early 1960 with his vision of keeping prices as low as possible. Wal-Mart’s mission has always been ‘ Always Low Prices’ which was the result of Sam Walton’s beliefs when he first started Wal-Mart. These beliefs were Respect for Individual, Service to customers and Strive for excellence. Wal-Mart strategy was a deliberate strategy from the very first day Wal-Mart was started. . Wal-Mart mission of low prices and excellent customer service is the backbone behind each and very strategy implemented by Wal-Mart. Every step that Wal-Mart took to attain the lowest possible prices resulted in some of the greatest deliberate strategies that Wal-Mart implemented like cutting edge technology, a corporate frugal culture and a constant push to suppliers to get the lowest possible prices.

The technology strategy implemented by forced the retail industry to establish the universal bar code which led to all suppliers/manufacturers to adopt a common labeling which created a shift of power and information database from manufacturers to retailers. The strategy made Wal-Mart a pioneer in supply chain management. Wal-Mart’s quest for low prices led it to import almost 60% of its merchandise from outside of US. Wal-Mart has pursued the low cost leadership strategy deliberately from the start to align to its mission.

Wal-Mart’s foray into the global market is more of an emergent strategy. Wal-Mart offers value through economies of scope . Wal-Mart’s entry into UK was done by purchasing a grocery store chain. It expanded into Canada by acquiring Woolco which was floundering at that time this acquisition was made. This tells us that Wal-Mart’s international expansion is as much emergent and opportunistic.