

Critically Assess the Extent to Which Netflix Inc. Has Followed a Prescriptive or Emergent Approach in Developing and Implementing Strategy

Xin Gao*

School of Management, Shanghai University, Shanghai, China

Abstract

As the competition within the business environment tends to be more intensive than ever, if the company wants to achieve a long-term sustainable development in the future, it is inseparable to develop a solid strategy. The development and implementation of strategy has been separated into two pathways, in terms of prescriptive and emergent approaches to strategy. The former emphasizes full preparation before the final strategy, while the latter emphasizes the actual experiments and trials for continuous adjustment. Each approach has its own advantages and disadvantages. Applying one approach purely is to some extent regarded as aggressive action and may lead to excessive rigidity or confusion. Therefore, management requires to combine the characteristics through finding an intermediate value in both approaches, in order to maintain both orderliness and flexibility. Initially, this report will introduce the process of strategic development. And then, it will offer detailed descriptions of both approaches, followed with a summary of the contradictions among different experts on the better practical significance. Finally, based on the prior theories, how Netflix uses different approaches with respect of different levels of strategy will be examined, combined with the reasons why Netflix adopted either of them or where its decision brought itself.

Keywords

Prescriptive Approach; Emergent Approach; Netflix; Strategic Management.

1. Introduction

In pace with the increasingly intensive business environment, it is crucial for organizations to develop and implement strategies to lay the foundation for future survival [12, 50]. Strategy is a coordinated approach where long-term goals and objectives of organizations can be realized, and it involves a series of executing and forthcoming actions and allocation of resources in order to make them realized [20]. Strategy development is the procedure where decisions are made about future action. Strategy implementation refers to the process of doing all the necessities required for the plan [9]. With respect to the strategy development process, it falls into two approaches in terms of prescriptive approach and emergent approach [16]. Prescriptive approach is to define objectives and develop major factors prior to the strategy commences. Emergent approach refers to the condition where final objectives remain to be ambiguous and elements will be continuously adjusted [26]. Both approaches have come into being from social progress and there is no absolute judgement on which is the optimal due to different backgrounds [20].

2. Process of Strategy Development

Strategic development process has been employed by organizations to build and develop competitive advantages [4]. It serves as a guidance in defining where the organization is currently in and what it intends to pursue, associated with the means to make it realized [32].

Based on the research conducted by Aremu and Oyinloye [3], organizational performance is positively correlated with strategic development and implementation. There are two distinct views of strategic development process in terms of prescriptive and emergent approaches [42]. Figure 1 indicates that the pathway of each approach is based on changing aspects of strategy, manifesting in intended, deliberate, unrealized, emergent and realized. Intended strategy can be regarded as preliminary plan and turned into deliberate strategy if it can be implemented [29]. Realized strategy refers to patterned activities over time and is evolved from deliberate and emergent strategy, while some intended strategies may fail halfway due to possible changes or resistance [23].



Figure 1. Strategy development process [20]

3. The Prescriptive and Emergent Approach to Strategy

3.1. The Prescriptive Approach

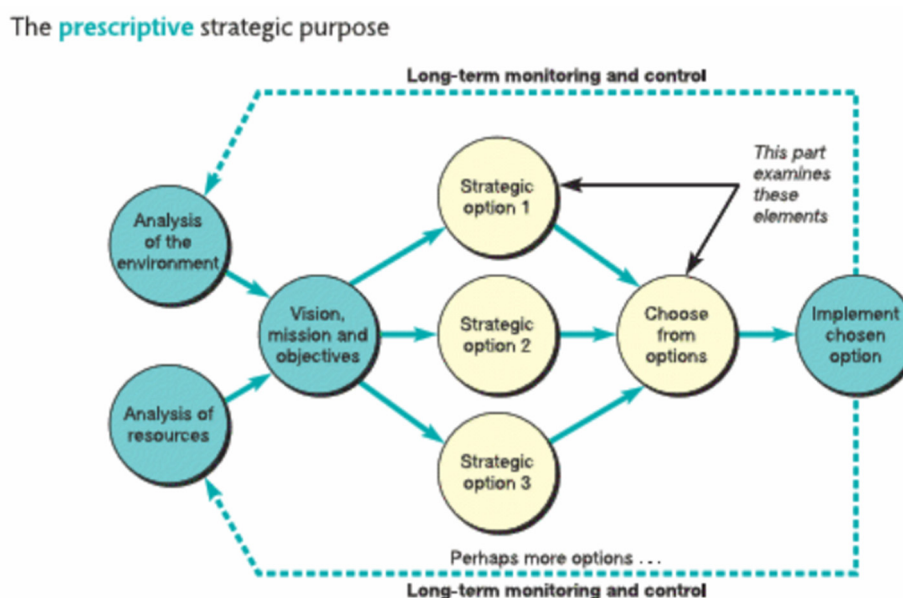


Figure 2. The prescriptive strategic purpose [26]

The prescriptive approach has been defined as a comprehensive linear procedure of actions [2]. As Figure 2 indicates, based on prior research on external environment and internal resources, organizations gradually determine their mission and vision statement, and thus construct the framework of goals and objectives and establish final strategies [41]. Furthermore, it emphasizes that elements related to the strategies should be prepared before the commencement of implementation without any overlapping parts [26]. Besides, Johnson and

Scholes [18] indicated that prescriptive approach is rational and analytic process due to any complexity met can be comprehended and senior management will develop corresponding solutions and others accept the arrangement by default. Despite Lynch whom proposed the prescriptive approach, Whittington connected deliberate process with classical and systemic approaches, where classical approach is described as a rational process of detailed calculation and analysis, and systemic approach has similarity with prescriptive approach but with more emphasis on the social context of strategy development [22]. Besides, strategic development can be separated into four views based on managerial intent, in terms of planning view, command view, logical incremental view and cultural view, and all belong to prescriptive approach with an exception of cultural view [19].

However, experts and scholars hold different attitudes towards prescriptive approach. Eisenhardt and Brown indicated that prescriptive approach excludes the concept of the future and is more focused on nowadays [12]. Therefore, it is helpless for managers whom follow the approach to obtain advance insights. Furthermore, if the framework of strategies is too rigid to change, it is possibly pernicious to business future management. Besides, Goold and Quinn also challenged its contemporary practicability and believed that detailed and comprehensive strategies are incompatible with the turbulent environment nowadays [14]. Thus, the characteristic of flexibility shifted into priority to seize opportunities. For instance, Kodak adhere to its own operating model and failed to respond to the disruptive change of film business [36]. It was also pointed out by Diefenbach and Sillince that organizations who follow the prescriptive approach is poor at the aptitude for variation and identification that there is an association [11]. Despite external considerations, the arguments also target intrinsic requirement. Perfect prescriptive approaches emphasize that strategies must be prevented from external forces and their intentions must be fully articulated [28]. The latter to some extent has conflict with bounded rationality, a widely accepted assumption based on socio-economic views [5]. Therefore, the conditions mentioned above are basically difficult to be achieved. In addition, there are different voices on the direction of strategy development. As Karlsson and Skalen indicated, strategies are developed by senior management from top to bottom [21]. Unless there is a purposeful action to communicate with the front line, there is no chances for employees to express themselves and take advantage of experience, and thus achieve demotivation. One of the reasons causing the Enron Incident was the extreme bureaucracy, which prevent the grassroots from awareness of specific operations [27].

3.2. The Emergent Approach to Strategy

The emergent approach refers to the strategy whose final destination is ambiguous and main elements are consistently developed as strategy development process progresses [9]. It is defined as patterns of action that has nothing to do with formal plans [15]. As Figure 2 indicates, there is no obvious sequence between the analysis of the external environment and internal resources and the formulation of vision, mission, objectives and etc. Emergent approach is to some extent defined as interactive process, but also strategy implementation serves as examinations and trials of options [44]. What is different from prescriptive approach is the attitude towards humans needs. Hurtado and Mukherji explained that the contribution of subordinates is placed in the forefront, possibly leading to strategical change and being radiated throughout the organizations by senior management [17]. Besides, emergent approach takes learning as fundamental to cope with the unpredictability of the future [33]. When taking into Whittington's theories, both evolutionary approaches and processual approaches are accounted as emergent [45]. Evolutionary approach diverges into multiple possibilities and believes that organizations fail to prepare for long-term survival and changing promptly. As for processual approach, it holds relatively more positive attitudes and believes that strategies are originated from close involvement.

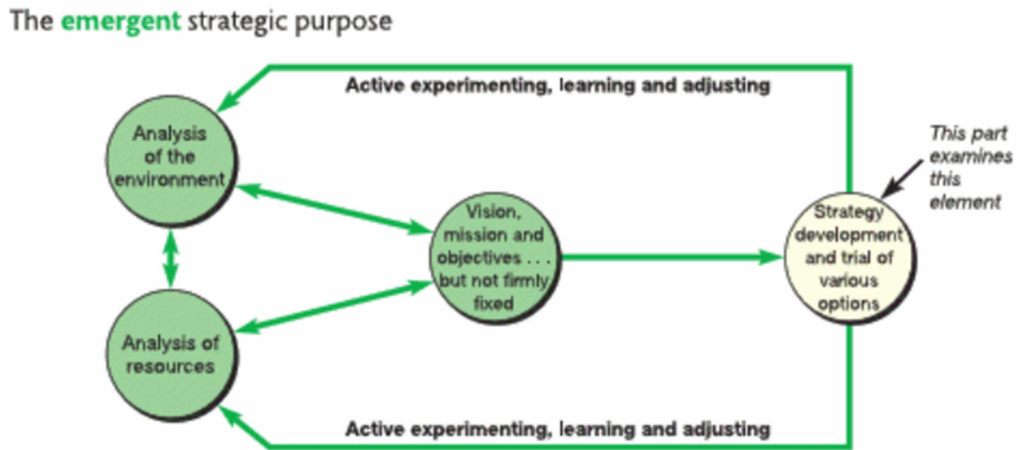


Figure 3. The emergent strategic purpose [26]

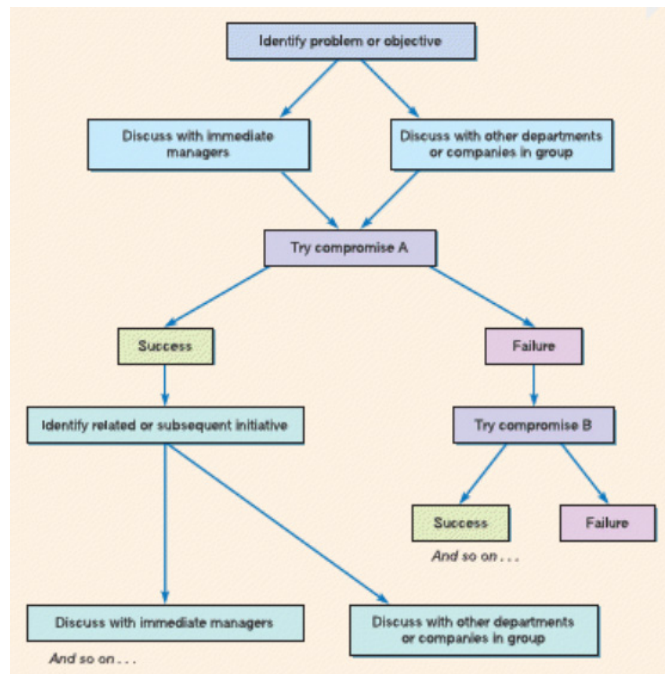


Figure 4. One opinion on the emergent approach [26]

When it comes into practicability, it remains arguments of the pure emergent approach, giving rise to a combination of prescriptive and emergent approaches [24]. Coffie and Blankson indicated that organizations must rely on resource allocation to realize aims and objectives [10]. Therefore, the pure one fails to provide a structure for expenditure and time allocation. Furthermore, the step-by-step planning to some extent is a necessity, that will demonstrate a clear pathway allowing management to effectively monitor the progress [26]. If organizations merely follow the emergent, it may make massive activities within the companies disordered (Kopmann, Kock, Killen, & Gemünden, 2017). However, Eisenhardt and Brown affirmed that emergent approach is the foundation for organizations to obtain and support competitive advantage [12]. It functions by seizing the fleeting opportunities and responding promptly, and thus break the norms within the industry. Lynch put forward that emergent approach may lead to blindly optimistic scenario, overestimating the possibility of success [26]. Besides, emergent approach is centered with continuous learning, where may be inappropriate and lead to ineffective use of time [41]. Besides, the extent to which human needs and staff motivation are emphasized has been challenged. The upward communication channel may be unrealistic due

to senior management understand more about the future direction and grasp how to reach it based on abundant experience [17].

4. Application of Relevant Theory to Netflix, Inc.

4.1. Company Overview of Netflix, Inc.

Netflix, Inc. is an Internet subscription service organization, whose core competency is the streaming service of movies and episodes on multiple Internet-based devices without any advertisement [30]. With a pleasant Q3 revenue of 5.24 billion US dollars and 158 million subscribers, it has been ranked 47 within the digital industry worldwide [13, 38]. It was founded by Marc Randolph and Wilmot Reed Hastings Jr. in Los Gatos since 1997 and as for now, the target market of Netflix reaches 243 countries [1,30]. The success in coverage fails to prevent Netflix from continuing to pursue the long-term sustainable development in terms of profitability and self-sufficiency [46].

4.2. The Utilization of Different Approaches to Netflix, Inc.

Inside organizations, strategies can be roughly divided into three main levels, in terms of cooperate strategies, business strategies and operational strategies [19]. Through the levels mentioned, it can be investigated that the development and formulation process of Netflix's strategies have been based on both pathways, in terms of prescriptive and emergent approaches.

Through the 22-year development of Netflix, the most influential cooperate strategy was the enterprise transformation on core service from online DVDs rental service to streaming media [40]. The founders indicated that they initially realized that all images and videos might be displayed online in the future. They immediately switched to the new cooperate strategy with breakthrough to some extent, discarding a linear mode of thinking, which is compatible with emergent approach [8]. Netflix quickly seize the opportunity of ever-efficient Internet distribution technology due to its flexibility [1]. However, the strategy of global expansion proved to be more prescriptive. Netflix was discouraged by European Parliament when it first entered the European market, causing it to switch aggressive approach to prescriptive approach [34]. It took formal plans into priority, from giving extra rights of broadcast, studying cultural policies in various countries to working with local companies.

With aspect of business strategy, the prescriptive approach takes the lead. Since 2013, Netflix has confirmed a detailed long-term strategy of content, that is to substitute authorized episodes with original production and improve the quality of shows and movies, superior to other competitors [31, 37]. Therefore, however high the return on investment [ROI] of stream live events or sports given by Amazon and Hulu, it was inflexible for Netflix to make adjustment due to the lack of capability to anticipate the turbulent environment [43]. As long as the marginal benefits and marginal cost of subscription reach balance, Netflix will struggle to improve content [35]. It will be assessed based on the objectives of expecting increasing number of subscribers annually due to whether there is a healthy income is directly related to the subscription for Netflix [7].

When it comes to the strategy targeting the current competition, Netflix shows an extremely prescriptive thinking model. Due to the decision of adhering to producing original movies and episodes, the pattern of the industry has been vastly subverted, making it difficult to predict the future [37]. Imitators were slowly emerging, with a similar operation, exchanging advertisement-free service with subscription [25]. In that way, Netflix is aimed at allocating over ten billion US dollars annually into improving original production regardless of unhealthy accounts [39]. As income cannot meet the increasing production cost of content, Netflix decided to compensate it through huge debts, that has been continuously increasing since 2017, worthy

of 20,736 US dollars [7]. It fails to anticipate any fluctuation within the market and operating conditions, and thus make possible adjustments towards objectives and strategies, which proves the major drawback of prescriptive approach.

As for operational-level, Netflix also followed an emergent approach on pricing strategy. In order to cover the extreme cost to achieve content strategy, Netflix increased the subscription fees by nearly 18% without planning, leading to a slowdown in the volume of subscribers, which failed to reach the expectancy given by the business strategy [31]. There seemed to be no pre-event planning towards the aggressive actions, that aroused consumers' antipathy to some extent and thus lead to a slowdown in subscription seriously [6]. In that way, the drawback of emergent approaches shows up, making Netflix badly battered to win them back, but to learn from the current feedback and customer elasticity of demand to figure out the appropriate pricing strategy again [31].

Due to the dissatisfaction of excessive exclusion of originality from consumers and continuous cooperative invitation given by worldwide TV platforms, Netflix attempted to cooperate with foreign video streaming, such as Spanish National Television through authorizing the right to broadcast its original production. Through the successful collaboration, Netflix found that there is a positive correlation that the broadcast of previous episodes and movies on TV can stabilize the current subscribers and persuade potential consumers to use Netflix's services [1]. Therefore, the newly found marketing strategy of beforehand cooperation was emerged, that is to sell broadcast right of previous originality to TV platforms in order to publicize the new episodes and enhance their appeal [8]. Netflix was out of preparation towards this discovery, because it was based on the tracking of the data patterns during the cooperation. Thus, the development and utilization of the sudden phenomenon is more like emergent approach to strategy.

5. Conclusion

To be concluded, there have been two pathways for developing and implementing strategy, in terms of prescriptive and emergent approaches. Both have their own characteristics and application. The former is more like a formal schedule sacrificing flexibility, while the latter devotes into the interaction with the market. Commentators have their own rhetoric towards both approaches since early, which makes the determination of the optimal depends on its compatibility with different contexts.

From investigation into Netflix, Inc., the phenomenon where prescriptive and emergent approaches to strategy were under permutations, tends to be obvious. The sustainable development of a company cannot purely depend on either prescriptive or emergent approach. Prescriptive approach provides a solid strategy with finite objectives and means, making the internal operations smoother and more well-organized, but has to cope with the possible discouragement towards necessary changes. On the other side, emergent approach offers sufficient flexibility to seize opportunities and takes companies to the next level, but with a concern of potential confusion. Therefore, companies must combine the advantages of both prescriptive and emergent approaches and take an intermediate value in both to keep pace with the contemporary changing business environment.

Acknowledgments

Natural Science Foundation.

References

- [1] Aguiar, L., & Waldfogel, J. (2018). Netflix: Global hegemon or facilitator of frictionless digital trade? *Journal of Cultural Economics*, 42(3), 419-445. doi:10.1007/s10824-017-9315-z.
- [2] Ansoff, I. (1965). *Corporate Strategy*. New York: McGraw Hill.
- [3] Aremu, M. A., & Oyinloye, O. O. (2014). Relationship between strategic management and firms' performance in nigerian banking industry. *Kuwait Chapter of Arabian Journal of Business and Management Review*, 4(3), 28-41..
- [4] Badua, F., & Sharifi, M. (2016). Auditing the strategy formulation process. *Internal Auditing*, 31(5), 18. Retrieved from <https://search-proquest-com.libaccess.hud.ac.uk/docview/1840795011/fulltextPDF/2C83ED05C5C64DE8PQ/1?accountid=11526>.
- [5] Ballester Pla, C., & Hernández, P. (2012). Bounded rationality. *Revista Internacional De Sociología*, 70(Extra_1), 27-38. doi:10.3989/ris.2011.10.20.
- [6] Benzinga: This chart shows why Netflix pricing strategy is working (2017). Chatham: Newstex. Retrieved from <https://search-proquest-com.libaccess.hud.ac.uk/docview/1949044276?Accountid=11526>.
- [7] Bond, P. (2017). Is Netflix shifting its strategy? wall street certainly hopes not. *Hollywood Reporter*, 423, 48.
- [8] Burroughs, B. (2019). House of Netflix: Streaming media and digital lore. *Popular Communication*, 17(1), 1-17. doi:10.1080/15405702.2017.1343948.
- [9] Carpenter, M., & Sanders, W. (2009) *Strategic Management: A Dynamic Perspective* (2nd ed.). Upper Saddle River, New Jersey: Pearson Education Limited.
- [10] Coffie, S., & Blankson, C. (2016). Strategic prescriptive theories in the business context of an emerging economy. *Journal of Strategic Marketing*, 26(5), 373-384. doi:10.1080/0965254X.2016.1240217.
- [11] Diefenbach, T., & Sillince, J. A. A. (2012). *Crossing of boundaries – subordinates' challenges to organisational hierarchy*. Bingley: Emerald Group Publishing Limited. doi:10.1108/S0733-558X(2012)0000035009.
- [12] Eisenhardt, K. M., & Brown, S. L. (1998). Time pacing: Competing in markets that won't stand still. *Harvard Business Review*, 76(2), 59.
- [13] Forbes China. (2019). Greater China Ranks No. 2 On New Forbes Digital 100 List. Retrieved from <https://www.forbes.com/sites/forbeschina/2019/10/10/greater-china-ranks-no-2-on-new-forbes-digital-100-list/#34136c506fae>.
- [14] Goold, M., & Quinn, J. J. (1990). The paradox of strategic controls. *Strategic Management Journal*, 11(1), 43-57. doi:10.1002/smj.4250110104.
- [15] Grant, R. M. (2003). Strategic planning in a turbulent environment: Evidence from the oil majors. *Strategic Management Journal*, 24(6), 491-517. doi:10.1002/smj.314.
- [16] Hammer, R. J., Edwards, J. S., & Tapinos, E. (2012). Examining the strategy development process through the lens of complex adaptive systems theory. *Journal of the Operational Research Society*, 63(7), 909-919. doi:10.1057/jors.2011.97.
- [17] Hurtado, P. S., & Mukherji, A. (2013). A critical comparison between the agent-based modeling approach and the classical view of emergent strategies. *Competition Forum*, 11(1), 7.
- [18] Johnson, G., & Scholes, K. (2002). *Exploring Corporate Strategy*. Harlow: Pearson Education Limited.
- [19] Johnson, G., Scholes, K., & Whittington, R. (2009). *Fundamentals of strategy*. Harlow: Pearson Education Limited.
- [20] Johnson, G., Whittington, R., Scholes, K., Angwin, D., & Regnér, P. (2014). *Exploring strategy* (10th ed.). Harlow, England: Pearson Education Limited.
- [21] Karlsson, J., & Skalen, P. (2015). Exploring front-line employee contributions to service innovation. *European Journal of Marketing*, 49, 1346-1365.

- [22] Lee, G. L. (1995). strategic management and the smaller firm. *Journal of Small Business and Enterprise Development*, 2(3), 158-164. doi:10.1108/eb020958.
- [23] Leitner, K. (2014). Strategy formation in the innovation and market domain: Emergent or deliberate? *Journal of Strategy and Management*, 7(4), 354-375. doi:10.1108/JSMA-02-2014-0015.
- [24] Lindstedt, J. (2015). A deliberately emergent strategy – a key to successful city branding. *Journal of Place Management and Development*, 8(2), 90-102. doi:10.1108/JPMD-12-2014-0029.
- [25] Lotz, Amanda D. (2014). *The Television Will be Revolutionized* (2nd ed.) New York: New York University Press.
- [26] Lynch, R. L. (2012). *Strategic management* (6th ed.). Harlow: Pearson Education Limited.
- [27] McBarnet, D. (2006). After enron will 'whiter than white collar crime' still wash? *The British Journal of Criminology*, 46(6), 1091-1109. doi:10.1093/bjc/azl068.
- [28] Mintzberg, H., & Waters, J. A. (1985). Of strategies, deliberate and emergent. *Strategic Management Journal*, 6(3), 257-272. doi:10.1002/smj.4250060306.
- [29] Mirabeau, L., Maguire, S., & Hardy, C. (2018). Bridging practice and process research to study transient manifestations of strategy. *Strategic Management Journal*, 39(3), 582-605. doi: 10.1002/smj. 2732.
- [30] Netflix. (n.d.). What is Netflix? Retrieved from https://help.netflix.com/en/node/412?ui_action=kb-article-popular-categories.
- [31] Nicolaou, A. (2019). Netflix strategy looks shakier after US subscriber defections. FT.com, Retrieved from <https://search-proquest-com.libaccess.hud.ac.uk/docview/2259650782?accountid=11526>.
- [32] Nwachukwu, C., Chladkova, H., & Fadeyi, O. (2018). Strategy formulation process and innovation performance nexus. *International Journal for Quality Research*, 12(1), 147-164. doi:10.18421/IJQR12.01-09.
- [33] Oliver, J. (2008). Action learning enabled strategy making. *Action Learning: Research and Practice*, 5(2), 149-158. doi:10.1080/14767330802185715.
- [34] Orłowski, A. (2017). EU pegs quota for 'homegrown' content on Netflix at 30 per cent. *The Register*, Retrieved from https://www.theregister.co.uk/2017/05/25/eu_pegs_homegrown_netflix_quota_at_30pc/.
- [35] Overheard; Netflix's global strategy may mean finding more second homes around the world for its original content. (2016). *Wall Street Journal* (Online) Retrieved from <https://search-proquest-com.libaccess.hud.ac.uk/docview/1789358558?accountid=11526>.
- [36] Randall, R. (2011). Kodak's failure to exploit its digital edge is a lesson on complacency. *Central Penn Business Journal*, 27(42), 15.
- [37] Shah, S., & Stefen, J. R. (2019). Analysts question Netflix strategy as costs and competition grow. SNL Kagan Media & Communications Report, Retrieved from <https://search-proquest-com.libaccess.hud.ac.uk/docview/2275694946?accountid=11526>.
- [38] Statista. (2019). Number of Netflix paying streaming subscribers worldwide from 3rd quarter 2011 to 3rd quarter 2019 (in millions). Retrieved from <https://www.statista.com/statistics/250934/quarterly-number-of-netflix-streaming-subscribers-worldwide/>.
- [39] Steel, E. (2016). At CES, Netflix Adds Over 130 Countries to Streaming Service. *New York Times* Retrieved from http://www.nytimes.com/2016/01/07/business/media/netflix-expands-its-streaming-service-worldwide.html?_r=0.
- [40] Steele, A. (2017). Business news: Netflix strategies pay off. *Wall Street Journal*, Retrieved from <https://search-proquest-com.libaccess.hud.ac.uk/docview/1860021527?accountid=11526>.
- [41] Syed, S., Jamil, R. A., Shah, T. A., & Kazmi, A. (2015). Critical exploration of prescriptive and emergent approaches to strategic management: A review paper. *International Journal of Information, Business and Management*, 7(3), 91.
- [42] Tapinos, E., Dyson, R. G., & Meadows, M. (2011). Does the balanced scorecard make a difference to the strategy development process? *Journal of the Operational Research Society*, 62(5), 888-899. doi: 10.1057/jors.2010.99.

- [43] Trefis: A Closer Look at Netflix's Content Strategy. (2017). Chatham: Newstex. Retrieved from <https://search-proquest-com.libaccess.hud.ac.uk/docview/1889774163?accountid=11526>.
- [44] Van Veen-Dirks, P., & Wijn, M. (2002). Strategic control: Meshing critical success factors with the balanced scorecard. *Long Range Planning*, 35(4), 407-427. doi:10.1016/S0024-6301(02)00066-3.
- [45] Whittington, R. (2001). *What is strategy - And does it Matter?* (2nd ed.) London: Thompson Learning..
- [46] Williams, J., & Stefen, J. R. (2019). Analysts raise questions about Netflix's long-term outlook as competition mounts. SNL Kagan Media & Communications Report, Retrieved from <https://search-proquest-com.libaccess.hud.ac.uk/docview/2259663114?accountid=11526>.

Appendix

Appendix A: The Current Market of Netflix

NETFLIX

TRY 30 DAYS FREE

SIGN IN

[← Back to Help Home](#)

Where is Netflix available?

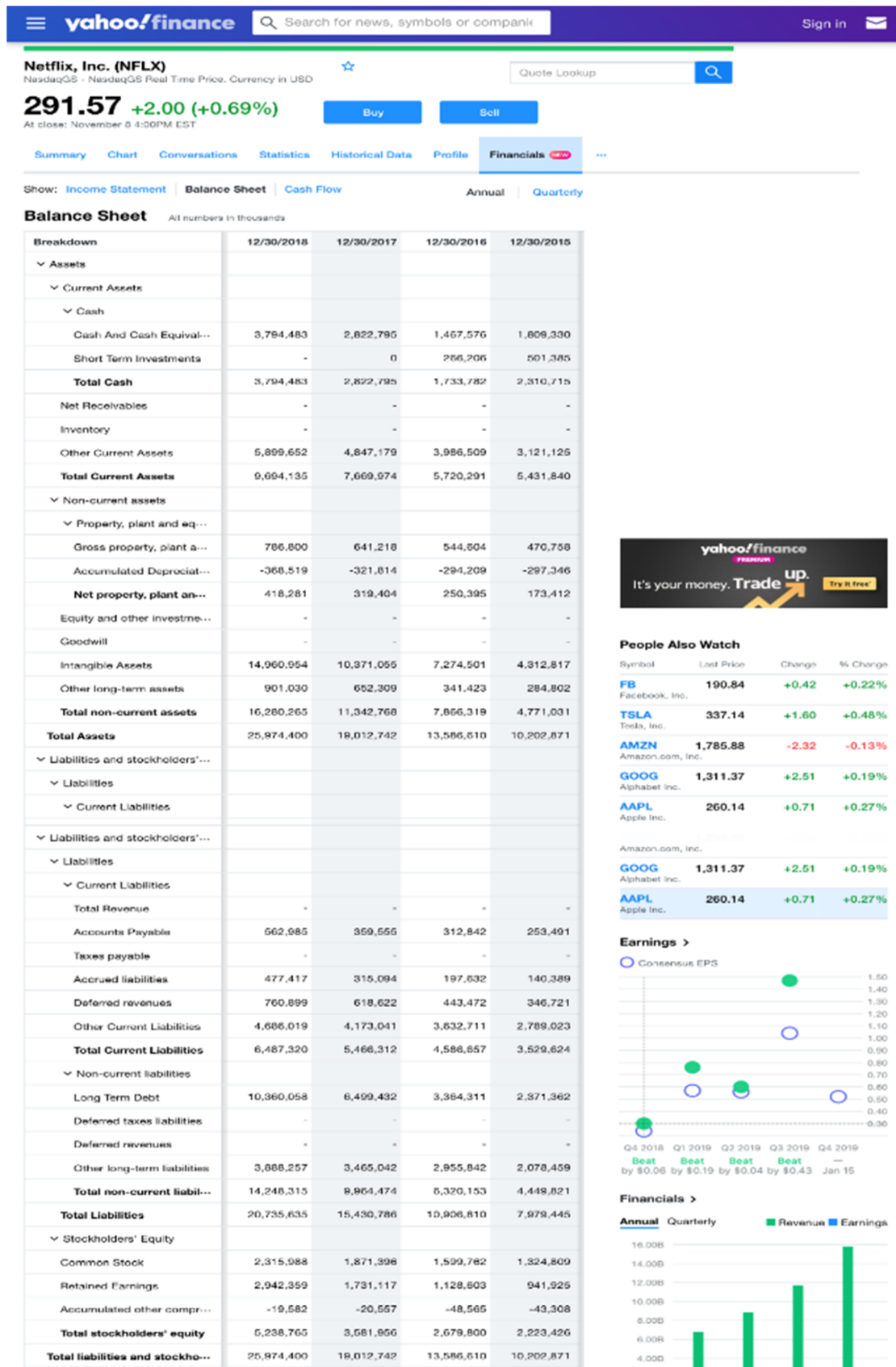
Netflix members with a streaming-only plan can watch TV shows and movies instantly in over 190 countries. The content that is available to stream may vary by location, and will change from time to time.



NOTE: Netflix is not yet available in China, though the company continues to explore options for providing the service. It also is not available in Crimea, North Korea, or Syria due to U.S. government restrictions on American companies.

Source: Netflix. (n.d.). Where is Netflix available? Retrieved from [https:// help. netflix. com/ en/node/14164](https://help.netflix.com/en/node/14164)

Appendix B: Balanced Sheet of Netflix, Inc.



Source: Yahoo Finance. (2019). Netflix, Inc. (NFLX) Balance Sheet. Retrieved from <https://finance.yahoo.com/quote/NFLX/balance-sheet?p=NFLX>