

## CHALLENGES OF STRATEGIC PLANNING AT THE GLOBAL LEVEL

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***Abstract:** The concept of strategic planning has changed significantly from the time when organizations have realized the importance of expanding its market share in other countries. The process of the global performance involves various benefits, certain obstacles and risks that organizations may encounter. Modern management is based on active adaptation in terms of strategy. Managers of the organizations that seriously count on success in the demanding conditions of modern international markets must be globally focused. The paper presents the challenges faced by managers in strategic planning and strategic decision-making. The benefits and risks of the global performance of the organization are emphasized. This paper emphasizes the importance of the development of strategic managers but the education of management students in the direction of global perception of the problem and circumstances.*

***Keywords:** strategy, strategic management, globalization, market, planning*

### 1. INTRODUCTION

The concept of strategic planning has changed significantly from the time when organizations have realized the importance of expanding its market share in other countries. In addition to the usual procedures and requirements provided by strategic planning, there is the concept of competitiveness and the flexibility as essential elements of planning. The inevitability of change stems from the fact that many organizations have not taken seriously the need to adapt and therefore brought their survival into question. The process of the global performance involves various benefits, certain obstacles and risks that organizations may encounter. Aspect of the global economy must be viewed through the prism of several factors that determine the specificity of individual countries, i.e. markets. Strategic managers must ensure that their planning activities pass through the context of the political, cultural, economic, and social characteristics of particular countries as potential markets. Modern management is based on active adaptation in strategic terms. Managers of the organizations that seriously count on success in the demanding conditions of modern international markets must be globally focused. The success of the organization is

conditioned by the inevitability of global perception of the market dimensions with clearly formed belief that success is the result of a globally integrated strategy, not the strategy specific to a particular country.

## 2. THEORETICAL CONSIDERATIONS

### Globalization

There are many reasons why organizations choose to focus on the global market. The motives are different, with the most obvious motive refers to the fact that the global orientation increases the size of the potential market for its products and services. Many multinational organizations are trying all means to reach markets in China and India because the purchasing power of their citizens, the middle class, has improved significantly. The global spread allows organizations to significantly increase the volume of business and thus increase total revenue. Benefits of global business relate to the possibility of a market offensive in areas that are not saturated, as is often the case with the domestic market by offering products or services offered by the organization. Increasing the volume of production affects the fixed costs, such as research and development, compared to a larger production capacity.

The importance of including the global aspect of strategic planning is becoming increasingly important in the harsh conditions of competitiveness at the global level. Overlooked or poor evaluations by manager at the level of strategic planning can leave a huge impact on the organization. C.K. Prahalad, professor in the University of Michigan points to a narrow view on global strategic circumstances. He points out error that large international organizations make neglecting of „the bottom of the pyramid”, which refers to the five billion poor people in developing countries. They have a purchasing power of \$14 billion in the segment of their needs related to the improvement of living conditions. Prahalad pointed out to example of several companies that as the part of the overall strategic analysis included this potentially valuable market segment. Unilever organization offered poor people in India disposable sachets of shampoo at affordable prices for them (one penny). With this strategic move within the untapped market segment, Unilever was able to achieve 60% of the total value of sold shampoo in India.<sup>1</sup>

**Outsourcing** – transfer of the activities to other businesses. The decision to transfer activities to other companies is made when a company decides to hire other companies to perform activities that create value, which previously took place within the company. Transfer of the activity can be carried out at the company within the same country, as well as companies from other countries (global context). The essence of outsourcing in a global sense comes down to a cost reduction with implementation of the same activities in qualitative and quantitative terms. An example of the challenges in terms of outsourcing refers to the company Misiu Systems based in Bothell (Washington). Todd Hodgen, director of Misiu Systems, which manufactures alarm systems, found that he could save 65 % of the cost of their own design, if the design process is transferred to a Taiwanese company. In addition to the perceived benefits in terms of reduced costs of the design process, Todd Hodgen recognized the potential benefits in terms of saving time in the process of product

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<sup>1</sup> Dess Gregory et al., *Strategijski menadžment*, (Beograd: Data status, 2007), str. 241

development, because the Taiwanese engineers could work in a period when American engineers rest (different time zones).<sup>2</sup>

**Offshoring** – the relocation of a business process from one country to another. If the managers of the company estimate that transfer of the activities to other countries will significantly reduce costs and contribute to higher profits of the company, then the offshoring can be seen as a logical move. If the car can be produced cheaper in Mexico, then it would be logical to produce it there, if the code can be cheaper to write in China, then this activity should be carried out exactly in China. In the strategic decisions of managers there is nothing political or philosophical in terms of offshoring, the essence is simply the fact that the company would thus reduce costs and save money.<sup>3</sup>

### **Global business risks**

The challenge faced by managers of small and medium-sized organizations in the global marketplace presents both a challenge and an enormous burden. Creativity and the ability to acquire, process and use information are important impulse for survival of organizations that are not among the biggest. The biggest losses have small and medium-sized national companies located in the same market segment as well as large foreign transnational companies. They find it difficult to survive the competition with international giants, who due to the crisis in underdeveloped countries maximally use the internal resources of these countries, tax benefits, charges for the use of local infrastructure and other benefits. This significantly affects the inferior position of small and medium-sized national companies.<sup>4</sup>

Many realize the globalization only from a positive point of view without a detailed analysis of the potential dangers it brings. While the globalization should allow freedom of trade and bring down all geographical barriers representing a line of differences between countries, commitment of the organizations to global trade implies equal openness for both good and bad things it brings.<sup>5</sup> Managers of transnational companies must take into account the risks posed by global business. They need to include these risks in the assessment process so defined strategies could be relatively protected from possible market surprises.

The challenges of strategic management are not only based on openness, as one of the basic features of global business. In addition to these problems, organizations encounter with much more serious problems arising from the essential and fundamental cultural differences between countries. These differences are related to the tradition, history, religious beliefs, and value judgments of certain nations. The pursuit of profit-seeking, efficiency and development, as emphasized by notions of capitalist society, as much it is accepted in the United States, Australia, Hong Kong, it is so unpopular in other countries such as France, the Middle East and Scandinavia.<sup>6</sup>

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<sup>2</sup> Dess Gregory et al., *Strategijski menadžment*, 241

<sup>3</sup> Coulter Mary, *Strategijski menadžment na delu*, (Beograd, Data Status, 2010), str. 54

<sup>4</sup> Zečević Miodrag i Nikolić Neda, *Globalizacija i konkurentnost*, 2012, str. 164.

<sup>5</sup> Coulter Mary, *Strategijski menadžment na delu*, str.20

<sup>6</sup> Coulter Mary, *Strategijski menadžment na delu*, str.21

## Global competitiveness

Competitiveness is imperative to success at all levels of the survival on the market, especially at the global level, in which all authorized and „unauthorized” means in order to realize the benefits are used. The condition of the globally competitiveness of organizations, reflects in the ability of managers to properly assess market conditions, advantages and disadvantages. Factors that define competitiveness can be classified into two categories:

- Non-price factors (innovation, creativity, branding, and customer service). One of the social field in which the importance of the brand is emphasized is sport. For sport, it is specific that all strategic decisions must be based on strong marketing assessment so the brand can be presented in the best possible way at the global level. An example of this is the success of Nike in terms of global placement of the „Air Jordan” basketball shoes where the organization made a profit of over \$ 100 million per year.<sup>7</sup>
- Price factors (expressed in the fact that products of international companies may need to go to the global market with prices that are lower than the prices of other international companies).<sup>8</sup>

## Global positioning strategy

Organizations can use many potential strategies in order to global positioning. What strategy managers of the organization will choose depends on their assessment of current capabilities, as well as estimates of maximizing profit in real terms.

Organizations that are looking to expand globally can be oriented towards some of the potential strategies:

- Export strategy – the use of local plants as a production base for exporting goods to the markets of other countries
- Licensing strategy – making profit by approving the usage of the license, the use of technology or knowledge (know -how) to organizations from other countries
- The strategy of using the franchise – the global expansion of the service and retail sector with setting standards
- Multi-state strategy – changing the strategic approach of a company from country to country according to local conditions and differences in the customer’s tastes and preferences
- A global strategy – the use of equal competitive strategic approach to all national markets in which the company operates
- Strategic alliances and ventures – alliances with companies in other countries, in order to maintain and to strengthen the competitiveness<sup>9</sup>.

Globalization is the current necessity. It cannot and must not be avoided. As the process of change, globalization depends on the growth rate of business transformation and the

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<sup>7</sup> Kastratović Edita i Denysiuk Volodymyr, „Marketing principles and their application in sport management”, *International journal of economics and law*, Vol. 1, No. 2 (2011): 52

<sup>8</sup> Zečević Miodrag i Nikolić Neda, *Globalizacija i konkurentnost*, 2012, str.207

<sup>9</sup> Thomson Arthur et al., *Strateški menadžment*, (Zagreb: Mate, 2008)str. 180

amount of technological changes<sup>10</sup>. Organizations must be prepared to adjust their positioning strategies according to the changes imposed by the global vortex.

### 3. RESUME

Globalization is inevitable thing and it imposes certain requirements for all market participants. In addition to managers who are constantly faced with changing circumstances, which the organization must adapt, all employees in the organization must accept the need for adjustment and therefore training. Globalization imposes the need for intensification of certain activities that were not so important in the previous period. Strategic managers are faced with increased demands in terms of market research of the competitor countries and countries that are potential future markets. In addition to the research process, strategic managers have intensified the need for a comprehensive analysis, which must include consideration of the risks that are possible in a global business. The term globalization must be seen as a process that evolves and transforms, and the importance of the adaptability must be emphasize both for strategic managers who make decisions on concrete actions of the organization, as well as in the process of educating young managers (ones that will be responsible for the future planning activities at the global level).

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<sup>10</sup>Martinović, M., „Globalization and environment impact on business enterprises”, *International journal of economics and law*, Vol. 1, No. 3 (2011): 79