Global business strategy: formulation and operations

Dr. Abhishek Gupta, MBA, Ph.D

Sardar Swaran Singh National Institute of Renewable Energy (Ministry of New & Renewable Energy, Govt. of India), Kapurthala (Punjab), India.

Email: iloveindia1909@gmail.com.

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Strategy is a process by which an organization assesses the future prospects of the firm to achieve its objectives. Almost all successful organizations engaged in strategic planning, and those with a global business operations position themselves to take full advantage of worldwide trends and opportunities. The strategic decisions are based on objectives, power, relationships, performance, resources and competencies. The changes in key forces affecting the business environment such as political, economic, technological, social and cultural result in change of strategy. International strategy includes the determination of correct balance between global standardization and integration on one hand and local responsiveness on the other hand. Multinational corporations (MNCs), in particular, report that strategic planning is essential to compete with increasing global competition and to control their overseas operations. It involves identifying and selecting appropriate goals and courses of action and take right decisions and actions to help an organization achieve its goals. Based on their strategic analysis the MNC's take decisions to enter new markets focus on research and innovation and utilization of favorable resources accordingly.

Key words: Strategy Planning, business environment, global standardization, global integration

INTRODUCTION

The process by which organizations assess the future prospects and take decisions of the firm and decide on appropriate strategies to achieve its objectives is called strategic planning (Helen, 2006). Almost all successful companies engage in strategic planning, and those with a global orientation position themselves to take full advantage of worldwide trends and opportunities. Multinational corporations (MNCs), in particular, report that strategic planning is essential to compete with increasing global competition and to coordinate their overseas operations. Based on their efficient strategy management, MNC's enjoy a daunting array of advantages. They fully utilize worldwide resources, economies of scale and scope, and rich knowledge and skills acquired through their operations over the years and in many diverse locations. In addition, considerable research attention has focused on global oriented strategies to introduce innovative products and services (Bhagwati, 2004).

In reality, however, that rational strategic planning is often tempered, or changed at some point, by a more incremental, sometimes disorganized, process of strategic decision making by some managers. When a new CEO is hired, for example, he will often call for a radical change in strategy that is why new leaders are very carefully chosen, on the basis of what they are expected to do. So, although the rational strategic planning process is presented in this text because it is usually the ideal, inclusive, method of determining long term plans, managers must remember that, throughout, people are making decisions and their own personal judgments, experiences, and motivations will shape the ultimate strategic direction. Experts predict that those companies with operations in major overseas markets (North America, Europe, and Asia) are far more likely to prosper in the twenty-first century than those without such operations, reason being that these new international opportunities are far more complex than those in domestic markets, so organizations have to plan strategically to attain its goal. Organizations, today, pay more attention to the institutional experience and consequences of corporate governance in emerging economies.

STRATEGY FORMULATION PROCESS: GLOBAL SIGHT

The global strategy formulation process is complex because of the greater difficulty in attaining accurate and
timely information on account of diversity of geographic locations, differences in political, legal, cultural, market and financial processes (Ricart et al., 2004). These factors account to risk in strategic decisions. The changing global environment and trends in competition is forcing global organizations to formulate strategies. The stages in the strategy formulation process are shown in Figure 1.

In reality, these stages seldom follow such a linear format. Defining the organization’s mission and goals is the first step in strategy formulation process. Management analyzes current situation and formulate the strategies accordingly to achieve its defined goals. Management must decide how to allocate resources and responsibilities between groups to ensure that the strategy is being followed to achieve its goals.

While formulating strategy for global operations the management need to carefully evaluate external environment factors. Right assessment and analysis of the firm’s capabilities to deal effectively with the environment should be considered, and plans be formulated. The objectives of an organization steer the formulation of international business strategy. The objectives of firm’s global objectives usually fall into the areas of marketing, profitability, finance, production, and research and development etc. The objectives give direction to the company and provide a basis for strategic decision making.

They get maximum market share, coordination of regional markets for economies of scale, quality and cost control, introduction of cost efficient production method, effective financing of overseas subsidiaries or allies, taxation, capital structure, foreign exchange management, annual rate of profit growth, develop new products with global patents, develop proprietary production technologies and worldwide research and development labs.

Environment Assessment includes environmental scanning and examining the factors affecting it around the world (Michael, 2005). These factors have the potential to shape the future by posing new opportunities (or threats). Organizations have to adapt to their environment to survive and so formulating strategy is all about adapting to the environment. The process of gathering information and forecasting relevant trends, competitive actions, and circumstances that will affect operations in geographic areas of potential interest is called environmental scanning. This activity should be conducted on three levels i.e. multinational, regional and national.

Analysis on the multinational level provides a broad assessment of significant worldwide trends-through identification, forecasting and monitoring activities. These trends would include the political and economic developments of nations around the world, as well as global technological progress. At the regional level, the analysis focuses in more detail on critical environmental factors to identify opportunities (and risks) for marketing the company’s products, services or technology. The final step is to analyse thenational level. Such an analysis explores in depth specific countries within the desired region for economic, legal, political, and cultural factors significant to the company. For example, the analysis could focus on the size and nature of the market, along with any possible operational problems, to consider how best to enter the market. In many volatile countries, continuous monitoring of such environmental factors is a vital part of on-going strategic planning. This stage of strategic formulation is often called PEST analysis (Political, Economic, Social and Technological), in which an organization’s external environment is assessed as related to the opportunities and threats to the organization.

After the environmental assessment, the second major step in considering international strategic decision is the internal analysis. This analysis determines which areas of the firm’s operations represent strengths or weaknesses (currently or potentially) compared to competitors, so that the firm may use that information to its strategic advantage. The internal analysis focuses on the company’s resources and operations and on global synergies. The strengths and weaknesses of the firm’s financial and managerial expertise and functional capabilities are evaluated to determine what key success factors the company has and how well they can help the firm exploit foreign opportunities. All organizations have strengths and weaknesses. Management’s challenge is to identify both and take appropriate action. Many diagnostic tools are available for conducting an internal resource audit (Mike, 2009).

Financial ratios may reveal the status of use of assets that is affecting profitability; a Salesforce analysis may reveal that the sales and marketing competence of an organization. To improve its on-going operations abroad, certain operational strategy issues must be taken into account such as difficulty in obtaining overseas market information, financial condition of the market and the complexities of exchange rates and government controls. The organizations must perform competitive analysis to assess the organization’s capabilities and key success factors compared to those of its competitors. They must assess the current potential and foresee the future competitive position of the organization in the market.

This process enables the strategy planersto determine where the organization has distinctive competencies that will give sustainable competitive advantage. The result of this process will also help to identify potential problems that can be overcome or that maybe significant enough to eliminate further consideration of certain strategies. This stage of strategic formulation is often called SWOT analysis (Strengths, Weaknesses, Opportunities and Threats), PEST analysis (in which an organization’s capabilities relative to those of its competitors are
assessed as pertinent to the opportunities and threats in the environment for those firms.

For efficient global operations, full integration is required between suppliers, productive facilities, marketing and distribution outlets and contractors around the world. Organizations move very quickly to the stage of global integration often through merger or acquisition, many companies evolve into multinational corporations by going through the entry strategies in stages, taking varying lengths of time between stages. Typically, an organization starts with simple exporting, moves to large-scale exporting with sales branches abroad, and then proceeds to assembly abroad, either by itself or through contract manufacturing and eventually evolves to full production abroad with its own subsidiaries (Dawar, 2002).

Finally, the MNC will undertake the global integration of its foreign subsidiaries, setting up cooperative activities among them to achieve economies of scale. By this point, the MNC has usually adopted a geocentric orientation, viewing opportunities and entry strategies in the global market instead of regional or national markets. In this way, alternative entry strategies are viewed on an overall portfolio basis to take maximum advantage of potential synergies and leverage arising from operations in overseas market. While formulating international strategy the social and cultural factors must be considered because social and cultural factors define communities and nations within which an organization has to develop. They serve to remind us that it is people who make those decisions and that the ways people think, feel, and act are based on their ingrained societal culture. People bring that context to work and it influences their tendency toward or against certain types of decisions. The impact of cultural differences in management style and expectations is perhaps most noticeable and important while formulating strategy so as to create a compatible and productive working environment, particularly when operations are integrated. Cultural impacts on strategic implementation are often even more pronounced in the service sector, because of many added variables, especially direct contact with the consumer.

**RISKS MITIGATION STRATEGIES**

A risk mitigation strategy is an organization’s plan to identify and minimize risks. Risk and mitigation strategy is a part of International Strategy Formulation and implementing risk and mitigation strategies is one of the most effective ways to protect an organization’s assets. It is a strategy devised to minimize, to the lowest level possible, any risks to an organization while still managing to maintain the optimum output and delivery of labor, goods, and services worldwide.

In international business operations lot of risks are involved such as Legal Risks related to compliance with foreign laws, import export regulations, licensing requirements, trademarks, patents, copyrights, litigation and arbitration, and other protectionist legislation; Technological Risks related to investment costs of the research and development of new products and processes; Economic Risks related to investment in specific markets where regulations favour domestic companies; Political, social and cultural risk while making inroads into a new overseas market; Risks involved in alliances in order to gain rapid entry in new overseas markets (Ghemawat, 2007).

**OPERATIONAL MODELS**

The business operations of an organization consist of a
series of distinct value creation activities such as production, marketing and sales, research and development and services. Support activities include organizational infrastructure, vendor management, human resources and information resources. If a firm is to implement a competitive global business strategy, it must establish effective management structures to oversee and coordinate diverse activities and vendors. In the past, most supply chain management decisions were made at the corporate level, ensuring efficiency and adherence to corporate goals.

However, in large, complex organizations with many manufacturing plants, vendors and suppliers, a centralized approach may sometimes overwhelm corporate management, leading to reduced efficiency, gaps in service or quality and ultimately higher company costs. Yet, decentralized solutions may cause large gaps between corporate strategies and goals and local processes and practices. Companies are scrambling to identify effective governance models. A few are listed below.

The Open Standards and Benchmarking Framework proposed by OCEG stress an integrated approach to governance, compliance, risk management and ethics. This open, standard based process framework measures performance in key areas such as supply chain, financial management, information technology, customer service, and marketing. It serves as an industry-neutral enterprise model that allows organizations to see their activities from a cross-industry perspective, benchmark against organizations around the world, and adopt best practices (Pradip and Sanchari, 2008). Dell Computers is a prime example.

A second model is ASN or the Advantaged Supply Network (Drickhammer, 2004). Buyers strive to work closely with suppliers to attack inefficiencies, duplication and waste in the supply chain, to coordinate their business strategies, and to manage resources together for competitive advantage (Robin et al., 2002). The key here is that buyers, vendors and corporate directors communicate regularly and work collaboratively. One of the most effective examples of ASN in practice is Toyota.

A third model, referred to as Smart Customization, involves combining the focus on value creation strategies and delivery alignment. A recent Booz Allen Hamilton study found that companies engaged in smart customization outperformed industry peers two-to-one in revenue growth, and had profit margins 5% to 10% above competitors (Panchak, 2004).

New approaches and models are emerging, but it is difficult for an organization to choose the right model or approach that fits best in its environment. Many of these emerging models adopt a single point of focus or approach. But the governance challenge is not in developing the “one size fits all” model. We need to identify flexible, dynamic and collaborative governance models that will help companies effectively manage vendors in a continually changing world.

**E-COMMERCE AS INTERNATIONAL BUSINESS STRATEGY**

Increasingly technology is becoming an important tool in international business development and maintenance. Organizations are now able to sign contracts with international suppliers that handle delivery, warehousing, banking and customer interactions. There are many international suppliers that can take care of everything going on behind the scenes from a single point of contact. Customers are handed a single bill for the combined services, which provide them with a Web-based control centre to monitor all operations.

The complexity and speed by which e-commerce is presented today makes it important that organizations achieve the most proficient speed and reliability that is available in order to compete. There is no doubt that the global e-commerce competitive arena is a challenging one, both strategically and technologically. But many companies around the world are plunging in, fearing that they will be left behind in this fast developing global e-market place, it becomes increasingly important that all options are viewed in aligning strategic sourcing with organizational strategies of effectiveness and efficiency.

**SUMMARY**

Strategy is a process by which an organization assesses the future prospects of the firm to achieve its objectives. The strategic decisions are based on objectives, power, relationships, performance, resources and competencies. The changes in key forces affecting the business environment such as political, economic, technological, social and cultural result in change of strategy.

International strategy includes the determination of correct balance between global standardization and integration on one hand and local responsiveness on the other hand. Organizations are facing increased global competition, economic uncertainties, technological development and changing markets trendshave changed the way to conduct business and manage information. Outsourcing of significant functions within businesses and organizations complicates the landscape of supplier relations. Suppliers and vendor partners may be located in a city, region or country but their services are available worldwide, adding new challenges to business management.

The process of strategic formulation for global competitiveness is a challenging task in such a volatile international arena and is further complicated by the difficulties involved in acquiring timely and credible information. However, early insight into global
developments provides a critical advantage in positioning an organization for future success.

REFERENCES


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