GLOBAL STRATEGIC PLANNING FOR INTERNATIONAL BUSINESS COMPANY

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ABSTRACT

Numerous international firms such as 3M company have found it necessary to institute formal global strategic planning to provide a means for top management to identify opportunities and threats from all over the world, formulate strategies to handle them. and stipulate how to finance the strategies' implementation. Global strategic plans not only provide for consistency of action among the firms' managers worldwide but also require the participants to consider the ramifications of their actions on the other environment and functional areas of the firms.

Standardization and Planning for International Strategies

Historically, it was believed that the production concept is more important than the marketing concept. Thus many organizations devoted energy to standardizing the product. This had led to marketing myopia by assuming that the standardized product is all they need for entering the international markets. In fact. it requires a complexity of thorough strategic planning in a global scale.

Global Strategic Planning Process

The effective global strategic planning is vital for success in today's global business environment. Managers need to know the general strategic planning process, which involves:

1. External Environment Analysis
2. Internal Environment Analysis
3. Define the Corporate Business. Vision and Mission Statement
4. Set Corporate Objectives
5. Quantification of Goals
6. Formulate the Business Strategies
7. Prepare Tactical Plan

The global strategic planning process should be precise and practical. It should hold that achieving organizational goals depends on determining the needs and wants of overseas customers and delivering the desired satisfactions effectively.

The international environments need to be analyzed prior to any other process to be the input for determining the suitable strategic plan and developing new products to suit the organizational objectives.

The global strategic planning process (as illustrated in table 1) is. to some extent. similar to those of the domestic. except the fact that the external environments in the global market are far more complex than the domestic environments.

Table 1

The Global Planning Process

Analyze Domestic and International Environments

Analyze Corporate Controllable Variables

Define the Corporate Business, Vision, and Mission Statement.

Review the appropriateness of the data, change if necessary

Set Corporate Objectives

Quantification of Goals

Modify the goals to reflect current situation

Prepare Tactical Plans

Formulate the International Business Strategies

Analyze Domestic and International Environments

The company has very little control, if any, over the international environments. International businessmen should, therefore, know how to analyze the external environments, which include:

1. Domestic Environments
2. International Environments, which are uncontrollable

The purpose of an external analysis is to identify aspects of the environment that represent either an opportunity or a threat to the organization. The factors that need to be considered are:

International Economic Forces:

Both the domestic and the world economic indicator are essential for global business operation. The important variables are interest rate, unemployment rate, consumer price index, inflation rate, and economic growth rate (GDP, GNP).

International Technological Force:

Technological Force is the mix of scientific knowledge that the society applies to the economic objectives, including new ideas, inventions, advanced techniques, and etc. The success of almost every organization today depends to a great extent on their ability to respond to rapid changes in technology, especially in global business. A country that uses the more advanced technology will gain competitive advantage in price. For example, the competition between Japan and USA in the steel industry has forced both countries to keep developing the production technology to minimize the cost of product. The technological forces greatly affect the strategic planning and the technology used within the organization will be reflected in the production system, distribution system, services, and the functions of every unit in the organization.

International Political and Regulating Forces:

The overall operation of an organization is, to a large extent, affected by political and regulating forces (W.R. Huss, 1988). The political-regulating environment varies dramatically from nation to nation. In many ways, the political climate of the country in which a business operates is very important. So, in order to analyze these forces, the company needs to understand the opportunities and threat that might be caused. Indeed we shall see examples in which the political stability can encourage business operation and investment.

Social Forces:

The global strategic planning also is influenced by social forces, such as values, attitudes, beliefs, demographic, and geographic factors. The change in social forces will affect both the customers and labor force. For example, the increasing number of working woman leads to increasing number of nursery.

Customer Forces:

Customer profiles must also be assesses as part of the strategic analysis. To determine whether the marketing strategies suit the customer demand, it is important to have an in-depth understanding of the characteristics, behavior and need of the customers.

Therefore, the strategic planners need to consider the aforementioned forces together with competitive situation, risks, socioeconomic forces, sociocultural forces, labor forces, and legal forces, so that the opportunities and threats can be correctly assessed.

Analyze Corporate Controllable Variables

Strategic analysis requires a thorough evaluation of the entire internal environment. One of the important inputs for analysis is the report from the subsidiaries. The key area that should be evaluated are:

Financial Position:

Financial analysis is essential for forecasting and planning. Generally, the indicators that should be considered are financial trends, balance sheet, analysis of profit and lost, competitor's financial status, profit from business units (in the case that there are several business units within the company)

Product Position:

A company must decide what positions it wants to occupy in the segment that it decided to enter. It must select positions that will give its products the competitive advantage over the competitors in selected target market.

Marketing Capability:

The principle applied for determining the product positioning, but the global marketing capability focuses on every element in marketing operation, such as, the cost of delivering the right product at the right place at the right time and at the right price.

Research and Development Capability:

The company should determine the stage of the product life cycle in which the products are. Then determine the number of products to be introduced to the market.

International Organizational Structure:

The better the organizational structure, the more likely that the business will achieve the goals and objectives. In order to know the strengths and weaknesses of the organizational structure, the manager should analyze the efficiency of the organizational chart, authority, responsibilities, line of command, decision making process, centralization/decentralization, and management style.

International Human Resources Management:

The effectiveness of every organization depends, to a great extent, on how well its human resources are utilized. Finding the right people to work in an organization for both business level and functional level can be difficult under any circumstances, but it is especially difficult to find the right people for overseas operations. Moreover, the company should also take into account the management's ability in persuading the employees to work effectively.

Global Production and Operation:

The factors to be considered for global production and operation are cost reduction, risk reduction, supply chain management, sources of products and services, new market development, global product development, multinational production, and global location analysis.

After analyzing the aforementioned factors, the global strategic planner should answer the following questions:

- What are the strengths and weaknesses?
- What are the labor and financial sources?
- What are the business objectives?
- Do the goals need to be changed? If yes, what would be the new goals?

After these questions have been answered, the strategic planner will define the corporate business, vision, and mission statement.

Define the Corporate Business, Vision, and Mission Statement.

Vision: The organizational vision is the need of the top-level managers to solve the problems and formulate the business strategies. A vision statement describes what the organization aspires to be in the long term. Generally, the visions defined in every operational level should be related to each other. The top management will define the vision base on the company's resources. The vision should be realistic and involves the scope of implementation, organizational needs, customer needs, and organizational culture.

Mission: At the corporate level, the company defines its overall purpose and mission. This mission then is turned into detailed supporting objectives that guide the whole company. The mission is generally the answer to the questions such as:

1. What is our business?
2. What will it be?
3. What should it be?
4. Who is our customer?
5. What is being satisfied?

Therefore, the mission provides the strategic direction of an organization and keeps the members focus on common goals.

Set Corporate Objectives

The organization must set the clear objectives based on the mission statement. The objective setting should involve:

1. The differences between business environments
2. Corporate debts
3. Reserves
4. Production cost and capacity
5. New products

Quantification of Goals

In general, goals provide a clear, engaging sense of direction and specify what the organization needs to accomplish within the specified period of time. These targets for achievement are important for effective strategic planning and should be available for every key function such as international marketing goals, international management goals, international production goals, international financial goals, and etc. The goals should be set for short term (1 year), medium term (3-5 years), and long term (more than 5 years).

The characteristics of effective goals are:

1. **Realistic but challenging:**

Goals should be achievable if the organization performs up to their full capacity according to the business plan. The goals should also reflect the business environment and moderately challenging. In other words, it should neither be too high that it discourages the employees nor it should be too low that the employees are not motivated and challenged.

2. **Measurable**:

Goals should be established in clearly measurable, usually expressed in quantitative terms within a specified time period.

3. **Related:**

All of the sub-goals that are set by the departments or smaller business units should be coincided and aim at the same direction. Also the short-term goals should support the medium-term goal and so on.

Formulate the International Business Strategies

Generally, the strategic plan should constantly be developed by taken into account the changes in business environment, new opportunities and threats, and changes in strengths and weaknesses. An organization that pursues an international strategy generally aims at:

1. Overall cost leadership
2. Differentiation
3. Focus

The organization should select the most cost-effective strategy. With direct mode of entry into the foreign market, the local business environment and culture should be taken into consideration. The managers generally prefer the organization to have contingency plans for possible changes in future circumstances.

"What if" is a useful question for setting the contingency plans, because it would help managers to think about fluctuation in sales, changes of raw material price, increase in taxes, changes in political leaders, and etc.

Prepare Tactical Plans

The company's strategic plan needs to be turned into detailed tactical plan for each level of management. Each manager should have their tactical plan and be responsible for achieving the strategic plan objectives.

Management Tools for International Business

Generally, the best management tool for effective international business communication is good planning. A study of 9,000 international business managers found that 90% of the respondents emphasize the mission as the most important tool for international business, followed by the ability to meet customer preferences, total quality management, and competition respectively.

Sales Forecasts and Budgets

Sales forecasts and budgets serve as mechanisms for controlling the financial aspects of the strategic plan. Without them, the managers would not be able to develop effective production plan, good financial system, or effective plans

Kinds of Strategic Plan

1. Time-based Strategic plan
   1.1 Short-term Plan (1 year)
   1.2 Medium-term Plan (about 3.5 years)
   1.3 Long Term Plan (about 5 years)

2. Organizational Structure Based Strategic Plan
   2.1 Corporate Level Strategic Planning
   2.2 Business Level Strategic Planning
   2.3 Departmental Strategic Planning

Method of Planning for International Business

1. Top-Down Planning

With a top-down approach, planning efforts begin with the board of directors and the top-level executives of the organization. They determine the general direction of the organization and establish a master plan to achieve its goals. The work groups develop their plans to support the master plan.

The advantage of this approach is that the headquarters, which presumably is most knowledgeable about the organization as a whole, set the development plan. Therefore the plan will be set with a global perspective.

The disadvantage of this approach is that there are a lot of limitations in implementation and it is not tailor made to suit local business conditions.

2. Bottom-Up Planning

On the contrary, bottom-up planning is initiated at the lower levels of the organization. As these plans move up through the organization, they are refined, and evaluated for feasibility. Finally the board of directors develop them to be the master plan of the organization.

The advantage of this approach is that the employees in every level feel that they were involved in the organization's planning. They will have positive attitude toward working according to the plan.

The disadvantage of this approach is that the lower-level manager may lack understanding of all factors affecting the organization. Therefore, the top-level managers should closely monitor and evaluate the planning in every level prior to finalizing into the master plan.

Analysis of the Global Strategic Plan of Japanese Companies

Many Japanese companies have been striving to be global companies. Although they have established the production plants and sales offices overseas for decades, their R&D, marketing, finance, investment plan are directed from the headquarter in Japan. For example, Toyota Company, which has always been operated in Japanese management style, is still performing well despite the world economic fluctuation.

As the overseas operation expands, the business is getting more complicated, it becomes difficult to control the overseas production and operation from the headquarters in Japan. This raised the concerns among EU member countries. They therefore have imposed strict regulations. NEC is one of the companies that have adjusted their marketing strategies to suit local conditions. This gave each subsidiary more independence. The headquarters "Matsushita" has decentralized its 69 subsidiaries in four continents including North America, Europe, Japan, and Asia by using "global localization" approach. There is a regional headquarters, which control every subsidiary in the continent.

Most of the subsidiaries of Japanese company got used to being controlled by the headquarters. They therefore found it difficult to operate the subsidiaries without close supervision. The training of new management approaches has been given to develop the effective global-localized strategies.

Summary

Strategic planning requires cooperation and commitment not only among the top-level managers, but also every working unit. The main benefit of effective global strategic planning is the competitive advantage in the international business competition. The process for strategic planning involves external environment analysis, internal environment analysis, defining the corporate business, setting vision and mission statement, setting corporate objectives, quantification of goals, business strategies formulation, and tactical planning.

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