

Significance of the Business Policy for Formulating the Corporate Strategy of the Enterprise for Entry on the Foreign Market.

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ABSTRACT

The issue for business policy and its significance has a special place in economic theory and practice. This condition is a result of the desire of every enterprise to have a business policy which will correspond to the greatest extent to the actual conditions of management in a certain space and time. This enables the structure and the framework of the business policy as a choice and determining the conception of goals which the enterprise wishes to achieve in a certain period, determining the manners and means for their realization, as well as organizing and controlling their realization.¹ Also, the business policy is connected to the creative decision for the fundamental goals of the operation of the enterprise with a selection of an appropriate strategy and structure in directing the operation towards achieving the goals and realization of the goal in the enterprise².

(Keywords: formulation of a strategy, competitive advantage, strategic planning, business goals)

INTRODUCTION

Even in conditions of economic globalization and recession of the world economy, business policy is connected with bringing together planned decisions of the enterprise which direct its activity for realization of the set goals in general, and in the direction of the modern conditions of acting of the strategies³ which become more complex and internationally oriented.

¹ Grupchikj D. "The Business policy of the enterprise", Institute of Economics, Zagreb, 1963, page. 7.

² Kralj J "Business policy" Informator, Zagreb, 1972, page. 113.

³ The notion of strategy is defined as a planned decision for the realization of the long-term goals and the planned

The formulation of strategy is a long-term plan for effective management with identification and acceptance of the internal and external factors of the enterprise⁴. The next step is determining and implementation of the strategy (where the setting of the short-term goals comes in, as well as the business policies and allocation of resources) and in the end there is the evaluation of the strategy (control and measurement of the received results and performances, etc.).

The formulation of an international strategy is placed in function for realization of the potential new market opportunities outside the domestic market. In this way the companies can achieve four main advantages from the international diversification: (1) increased market, (2) larger profit of great capital investments or investments in products or processes, (3) larger economy of scope, scale or knowledge and (4) competitive

tasks of the enterprise, accepting the direction of the action and allocation of resources needed to realize those goals.³⁷ The notion strategy (extracted from the Greek word *strategos* – military leader) is used in many ways. Certain authors take into account the end points (objective, mission) and means for their realization (policies, plans), while others only highlight the means for realizing the end points of the strategic process. The strategy directs the plans and is a frame for their preparation, a basis for the operative plans and affects all ranges of the management process. The strategy as a concept, has a dynamic and of course long-term orientation. It is most often used to determine the models of behaviours of the enterprise. In that sense, when speaking of strategy, one speaks mainly of change management, since the strategy itself is movement from a familiar condition to a less familiar, undefined condition in which the old models, organization rules and concepts are quite often unsuitable in their application.

⁴V. Naumovska, referred paper, page 136.

advantage through location.⁵ When we speak of realizing the entry strategy on a foreign market, in theory there are two types of international strategy listed: on a level of sectors and on a level of enterprises. On a level of sectors, the companies follow generic strategies: cost leadership, differentiation, focused cost leadership, focused differentiation or integrated costs/differentiation leadership. On the level of enterprises the companies can formulate three types of strategies: multi-domestic, global and transnational (combination of multi-domestic and global). But, in order to create competitive advantage, each of these strategies must realize essential advantages based on resources and abilities which are difficult to imitate.⁶

Use of Corporate Strategies

The use of the corporate strategies in the global automobile industry point out to the fact that the competition and the competitive rivalry in this field are dynamic and impetuous⁷. The corporate strategies on the level of sectors are divided into four types:

- Complementary strategies, made in order to use the market opportunities through combination of the means of the partner companies in a complementary manner in order to create a new value;
- Associations to reduce the competition, where the government policies for the reduction of the competition between the companies (cooperation between the rivals is allowed without breaking the anti-trust laws) are demonstrated.
- Associations for competitive answers are used by the companies to correspond to the strategic, but typically not tactical, competitive actions and reactions of the competitors, and

- Associations to reduce the incertitude can be seen on the markets with fast cycles as a risk protection.

On the other hand, the corporate strategies on the level of enterprises which facilitate the production and market diversification can be seen in the following models:

- Diversification associations, allow the company to expand in new production or market fields without merger or acquisition
- Synergy associations which create a common economy of scale between two and more companies and
- The franchises are the alternative of the diversification which is considered to be a corporate strategy based on an agreed relationship.

The strategic planning is connected to the work of the top managers complemented with the contribution from the managers of the various functional departments such as: research and development, marketing, finances, the employees. Therefore, it is necessary for it to be integrated in the entire management process: organizational structure, rewarding, motivation, control.

When realizing the strategic goal of an enterprise such as entry into a foreign market, which has been previously defined in the business and development policy of the enterprise, the strategies whose influence will contribute to the scope of operation, resources as well as the manners of increasing earnings, i.e. profit, have a special role. These are corporate strategies, which, if seriously included in the business planning, can contribute to the realization of the goals in the entire enterprise. This is provided by the growth strategy through increase of sales, market share and profit via concentration and diversification.

When planning the time and place of entry into the foreign market, four general orientations can be found in the modern world economy⁸:

- 1) single-centric orientation, which presumes paying more attention to own resources and the domestic market, as well as the domestic culture

⁵ M.A. Hitt, referred paper, page 9.

⁶ D.J.Teece, G.Pisano, & A. Shuen, Dynamic capabilities and strategic management, *Strategic Management Journal*, 1997, p. 509-533.

⁷ By using cost leadership strategies, the Korean automobile manufacturers Hyundai Motors Kia and Motors Corp. in 2000, announced their intentions to increase the sales on the markets in the USA. Hyundai wished to increase its volume from 164.000 units in 1999 to 200.000 units in 2000.

⁸ B. Rakita, mentioned paper, p. 32.

in the business consideration, behaviour and decision making.

2) poly-centric orientation which presumes that the enterprise geographically diversifies its business activities, whereby adjusting its organizational structure and management to the new situation of international expansion.

3) region-centric orientation, which maximally focuses the enterprise on consumers and resources of one or several regions where the market is being entered and thus it is focused on full harmonization with the business environment of a foreign country or region.

4) geocentric orientation views the entire world as a single potential market. This means that such enterprises are globally oriented with a single strategy, culture, staff, organizational structure and its management, redistribution of realized financial instruments and all other operation aspects.

According to Kotler (394), the enterprise has several variants to determine the width of the product assortment that will be placed in one, several or many market segments of consumers:

-the enterprise can enter a market with one product that will be focused on the same segment of consumers in all related markets where they plan to enter (global product tampon or specialist for a certain product);

- the enterprise can plan to enter with a single product into several regionally connected markets (regional product tampon);
- the enterprise can decide to enter with one product on one market (market/product);
- the enterprise can plan to enter with a wider assortment of products, in a single market (market specialist);
- the enterprise can enter in a certain region with a wider assortment of products (regional specialist);
- the enterprise can enter the global market with a wider assortment of products (complete globalization).
- international dimensions of the sales channels (product distribution)

B. Rakita, points out the following peculiarities regarding the market coverage that is realized via the established channel (i.e., sales system /distribution):

- single instrument with institutional nature, i.e. it is an entire system of service organizations and institutions that make the goods-money transaction real and feasible;
- overcoming time and space barriers, as mentioned above, the basic task of distribution, it is even more present in international marketing;
- relatively inelastic instrument of marketing, the inelasticity of which arises from the principle of continuity as a more significant strategic objective and success criterion for the sales channel, as well as the long period necessary to build an appropriate distribution system;
- the channels are the most difficult variable to control, as the result of numerous organizational units outside of the enterprise that must be connected and synchronized into a single distribution system and the very different marketing infrastructure in various countries;
- the choice of appropriate sales channel is much more complex in international marketing than in national marketing.

Regarding the issue of assessment of own advantages and weaknesses in relation to the entry into a foreign market, M. Gjorgjevikj⁹, points out that the analysis of possibilities and the definition of enterprise operation and strategic goals also includes the values of the enterprise. The defined goal of the enterprise contains the basic goals of any strategic business unit that is an integral part of the enterprise.

The first step towards an efficient business plan for entry in the foreign market is the choice of the market segment where the product will be placed. Middleton¹⁰, lists five basic criteria (variables) for global market segmentation:

⁹ M. Gjorgjevikj, *Strategiski marketing, Savremena administracija*, Belgrade, 1994, p. 76.

¹⁰ Cited by MA Anita Ciunova, *Segmentiranje na pazarot*, Master's thesis, Faculty of Economics – Skopje, 2001, p. 56.

- operation objective;
- motivation, needs and desires of consumers;
- consumer characteristics in view of the manner, frequency, attachment to a certain product and similar;
- demographic, economic, and geographic characteristics;
- psychographic characteristics, and
- product price.

Kotler¹¹, provides an identification procedure for the main market segments, which takes place in the following phases:

- 1) Testing phase: sufficient information for precise profiling of each segment must be collected in this phase;
- 2) Analysis phase: factor and group analysis is applied in order to choose the number of maximally different segments, and
- 3) Profiling phase: each group is profiled in relation to its specific attitudes and behaviour habits.

Kadriovski (p. 143) points out the following benefits from the implementation of the chosen market segmentation:

- the current and future sales potential is determined for each market segment;
- information on the present competitors which are already servicing the market segment is provided, this helps to determine the possible market share;
- design of such a product is enabled which will be intended for precisely known demands, wishes and preferences of consumers;
- facilitates product placement – for a precisely defined consumer in advance
- reduces the number of costs and funds, because it gives recommendations on where the financial resources should be concentrated, and

¹¹ 221.

- determines which segments correspond to the internal possibilities of the enterprise and thus a recommendation is made to merge the internal advantages with the enterprise possibilities.

Attractiveness and Business Policy

In ranking, assessment of the attractiveness and choice of the target foreign market segment, the following criteria must be taken into account¹²:

- the target market must correspond, i.e. must be compatible with the goals and image of the enterprise
- the choice of the target market must take into account the size and structure of the available own resources
- segments that are not only big and massive, but also profitable must be chosen
- the enterprise must target those segments that are not taken by major competitors

The following three basic strategies are present in the theory on the selection of an alternative manner of choice and communication with the target market¹³:

- 1) the concentrated marketing is highly specialized marketing strategy where the enterprise selects only one market segment out of the whole market and builds a marketing programme only to satisfy the customer needs on that market segment. This is most frequently used by the small enterprises, the enterprises with limited resources, and sometimes it is also applied by the larger companies as part, or as an experiment within their marketing strategy.
- 2) non-differential marketing is a market approach strategy and it is very close strategy to the mass marketing. It is a situation when the enterprise does not segment the market according to a criterion, and it enters and communicates with a single marketing programme for the whole market.

¹² W. Stanton, C. Futrell, Fundamentals of Marketing, McGraw-Hill. 1987, p. 40.

¹³ M. Jovičić, Međunarodni marketing, Tim Soft Trade, Beograd, 1997, str. 133.

3) the differentiated marketing is more sophisticated strategy for treating market segments and it represents a multi-segmental approach towards the target segments. The essence of this strategy lies in the selection of few (a small number of) market segments for which the enterprise designs special marketing programme for each separate market segment.

Business Planning and its Effects on the Company Growth by Successful Penetration on a Foreign Market

In modern operating conditions, the adjustment process of the companies according to the new markets and the technological changes represent a challenge for the business planning concept focused towards realization of company growth. The growth and development process of the company is a strategic goal, i.e. a management goal which involves reaching decisions, adjustments according to the market needs and the other economic conditions.

The business planning and the development policy of the company have a common goal – establishment of the vision, mission and goals of the company and creating conditions for their realization. For that purpose, the market, technological and societal trends in the defining of the company development need to be planned, as well as their effects on its future functioning. The views of the enterprise: about the market it aims at, domestic or foreign, in segments or as a whole, the technology on which it will base the production, the elements on which it will build the competing position, the share of the enterprise in the total value of the common product (sold or produced), raw materials for the future production (domestic or foreign), the amount of the profit rate in the evaluation of the development projects, manner of financing and alike, are some of the key, principal determinations which make the content of the development policy¹⁴.

¹⁴ V. Mojsoski, B. Shuklev, referred paper, page.432 (The development policy of the enterprise should: 1. reflect the views of the enterprise about the anticipated changes in the surrounding, 2.ensure consistency in the decision-making for development of the enterprise segments as a whole, 3.harmonize the goals, the instruments and the possibilities of the enterprise, 4.ensure unified growth and development of the enterprise as a business system, 5.accept the basic values and the development goals of the society in

The business planning of enterprise's growth by means of market penetration, must be based on the following elements:

- 1) to reflect the views of the enterprise about the anticipated changes in the surrounding;
- 2) to ensure consistency in the decision-making for development of the enterprise segments as a whole;
- 3) to harmonize the goals, the instruments and the possibilities of the enterprise;
- 4) to ensure unified growth and development of the enterprise as a business system;
- 5) to accept the basic values and the development goals of the society in which the enterprise operates and
- 6) to be given in understandable form for all organs and individuals which shall implement it in practice within the enterprise.¹⁵

The development strategy, which implies gaining new market segments or new geographical areas, is of particular importance for the realization of the growth and development goals by means of market penetration. Since a matter of a strategy with multidisciplinary character, it needs to be based on an assessment of the target market, discovering of various cultures, values, customer behaviour etc. In general, growth can be achieved with product and market combination.

- increasing the sales of the existing products on the existing markets (penetration);
- increasing the sales of the existing products by covering new markets (market development);
- introduction of new products on new markets (diversification).

When it comes to a market growth, this can be achieved by expanding the current one and by penetrating new markets. The strategic approach

which the enterprise operates, 6.be given in understandable form for all organs and individuals which shall implement it in practice within the enterprise).

¹⁵ Ibid, page 432.

towards growth implies defining of the product and the market, and explicit establishment of relations between these two elements. The frame of strategic solutions for combining market and product shall depend on how the company defines its position in relation to the factors in its surrounding.

CONCLUSION

There is no doubt that the growth and development process of the company is determined by the active influence on the surrounding factors, by responding to the challenge of change in the factors, but also with changes in the organizational structure and a series of other modifications. If the growth means changes in the company size, and the development implies overall changes in its organizational structure and area of operation, then the key management issue consists of harmonizing the size, the scope and the strategy for company growth and development. In fact, to manage growth and development means to reach decisions about goals, sources, direction, method and pace of development. However, multidimensional management problems might appear in practice, for which suitable solutions need to be found.

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