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## THE ADJUSTMENT OF DEVELOPING STRATEGIES OF DOMESTIC ENTERPRISES UNDER THE CONDITION OF GLOBAL BUSINESS

### Abstract

*In order for a small country, such as Serbia, to be included in the trends of the modern world market primarily depends on the quality of the functioning of domestic enterprises as leaders of the economic integration. This serious and responsible task should enable domestic enterprises to handle international competition successfully. Having that in mind, this paper emphasizes the need for creating and strengthening the international business orientation of Serbian enterprises which function in conditions of the world economic crisis.*

**Key words:** *global environment, international competition, managers, enterprises, innovation.*

**JEL Classification:** L12, M54

## ПРИЛАГОЂАВАЊЕ РАЗВОЈНИХ СТРАТЕГИЈА ДОМАЋИХ ПРЕДУЗЕЋА УСЛОВИМА ГЛОБАЛНОГ ПОСЛОВАЊА

### Апстракт

*Успех укључивања једне мале земље, као што је Србија, у токове модерног светског тржишта зависи, пре свега, од квалитета функционисања домаћих предузећа као лидера економске интеграције. Овај комплексан и одговоран задатак и процес треба да оспособи домаћа предузећа да се суоче са међународном кокуренцијом. Имајући то у виду, у овом раду се наглашава потреба за стварањем и јачањем међународне пословне оријентације српских предузећа у условима светске економске кризе.*

**Кључне речи:** *глобално окружење, међународна конкуренција, менаџери, предузећа, иновације.*

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## Introduction

The quality of functioning of domestic enterprises and their integration into the international business environment greatly determine the efficiency of functioning of the Serbian economy in modern international economic relations. Reintegration of domestic enterprises is a complex and responsible task, that is, a process in which enterprises should be trained to successfully compete on the international market.

The development dimension and internationalization of business demand that enterprises, from the dominant view on the domestic market, take part more in international business activities. It is necessary for them to be innovative in order to be successful in this. The ability of management and leadership to recognize the demands of the target markets and react to competitors' actions in a flexible way will determine the success of the whole business mission of domestic enterprises.

### 1. The need for strengthening the business orientation of domestic enterprises

Besides the difficulties caused by the current economic crisis, the aggravating circumstances which are in the way of including domestic enterprises into the trends of international economy are also linked to their long-term absence from the global market as a consequence of international isolation of our country and armed conflicts. In such conditions, international markets were inadequately treated in the growth and development strategy of our enterprises. The management of companies viewed the events on the global market from a great distance and therefore were not seriously dedicated to the analysis of international competition. That determined the absence of serious selectivity in choosing international markets and market segments, which lead to expressing one-sidedness in choosing the forms of international business.

Suspension of economic sanctions enabled international appearance of our enterprises and their involvement in the process of European integrations. In such conditions, domestic companies need to accept the radical changes in the way of business functioning, which implies the implementation of complete market transformation, adjustment to the changes, accepting new ideas and quick response to the impulses from the environment.

Globalization of the world economy and strengthening of the process of European integration impose changes in the manner of business thinking in the sense of accepting the fact that 'changes are permanently needed', that is that 'those who do not innovate necessarily disappear from the economic scene'.

In such a changed economic environment, the innovativity of enterprises is a necessary condition for successful functioning with the goal of realizing long-term business success, that is, profitability and competitiveness. The crucial factor in the competitiveness of an innovative enterprise are innovations which represent its strategic resource. The innovation complex is in essence represented by: new products, new production technologies, opening new markets, introducing new resources and raw materials, new organization of economic activities.<sup>2</sup> Willingness to change (adaptation) becomes the basis for successful management and training an enterprise for successful functioning on the global market, which implies the following:

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<sup>2</sup> Schumpeter, J. 1939. *Business Cycles*, New York, McGraw Hill, pp. 87-88.

- identification and introduction of changes in an organizational structure,
- changes in the production and market strategy,
- changing the strategies of enterprise development and management and
- using human resources and other resources – using knowledge, employee training.<sup>3</sup>

## 2. Strategic management approach and international competitiveness

International business orientation of our enterprises must acknowledge the *strategic management approach*. This is necessary not only to adjust to the current changes in the global business environment, but also in order to overcome internal limitations of the organization growth. Consequently, it is necessary that the selection of possibilities on international markets, modes of entry, type of presence on an international market and resource allocation contribute to the realization of the strategy mission and long-term development goals of an enterprise. The development dimension and internationalization of business demand from the enterprises to be engaged more in international business activities than to be dominantly oriented towards the domestic market. This engagement evolves over time through phases of export, multinational and finally *global orientation*. Thereby, the success of the whole business mission of domestic enterprises will depend on the abilities of management and leadership to recognize the demands of target markets and react to competitors' actions in a flexible way. In order for our enterprises to be internationally oriented and competitive, it is necessary to:

- adequately treat international market in the enterprise growth and development strategy:
  - eliminate systematic (continuous) segregation of business conditions on the domestic market in comparison to the international market;
  - respect economic interest in defining target functions of an enterprise on the global market (export and not product surplus).
- selectively approach defining internationally promising products:
  - export of as many of those products which pass (in relation to the demands and standards, that is, quality).
- establish direct contact with international consumers on target market segments.
- selectively approach the choice of a market and market segments (the choice of the most attractive target markets)
- have an adequate relationship to competitiveness:
  - accepting national loyalty towards competitors from the country (eliminating a defensive approach and subordinate position in relation to international competition),
  - cooperation in export, mutual competitive connecting and mutual processing of international markets are necessary,
- opt for versatility in using certain forms of international business:
  - overcoming traditional export by increasing long-term productive cooperation (by compensation affairs, by-back affairs and border traffic),
  - create conditions for mutual investments and direct investments.

<sup>3</sup> Yukl G., (1998) “*Leadership in Organizations*“, 4<sup>th</sup> edition, Prentice – Hall International, Inc., Upper Saddle River, New Jersey, pp. 102-104

- overcome the gap between potential and effective competitiveness:
  - realistic assessment of the productive-technological and market positions (in relation to competitive enterprises from other countries),
  - increasing the degree of production capacity according to global standards and demands of customers (quality, delivery deadlines, functionalities, price competitiveness),
  - increasing competitiveness (the degree of product novelty, originality, design, packaging).
- stimulate inventive and creative work:
  - improve the treatment and position of scientific research and creative work (with the aim of accepting new ideas and concrete inventions),
  - increase the degree of product novelty by originality and design.
- eliminate negotiating and price inferiority:
  - adjusting price levels to global standards (with the policy of real exchange rate of the dinar and stimulative measures of economic policy;
  - respecting the non-price factors of competitiveness.
- establish an adequate relation towards promoting activities (public relations, advertising, fairs and exhibitions and personal sale abroad). Better presentation of domestic products and better recognition on the international market will not be reached unless product quality and their versatile promotion are not improved.

Unfavorable position of our economy on the international market also demands radical *changes of the national business image*. Globalized business environment imposes on domestic enterprises the responsibility to present their own potentials to the world public which can be a part of international cooperation. A more favorable view of the domestic products and their better recognition on the international market will not be reached unless there is no *versatile promotion* besides improvement of their quality. In that sense, such activities must be backed by active measures of the state directed towards building a more favorable image of the country, improvement and promotion of export and international affirmation of domestic enterprises.

In order to increase competitive abilities and more successful overcoming of external obstacles, it should also be insisted on the formation of *export marketing groups* (consortium) which imply joint appearance of legally and economically independent companies on the markets of third world countries. This type of export corresponds, first of all, to small and medium-sized enterprises which cannot independently reach the desired export strength in size and potential. Therefore, the help of the country to this group of enterprises needs to be the most significant. International business appearance of domestic enterprises must, therefore, be supported by the national economy, that is, the state, but it must primarily be based on management abilities to create and apply the internationalization strategy as a primary strategy of growth and development of an organization in global conditions of business.

### **3. Global environment and adjustment of development strategies**

Our enterprises have not adjusted their own development strategy to the conditions of the growing trend of business globalization and the future of our enterprises is even more uncertain if they are still nationally oriented, despite the intensive globalization of the branch of activity where they do business. Creating efficient and adequate strategies

is impossible without: collecting information about the global environment, competition, markets, research (general or applied), ideas and development, finding solutions...).<sup>4</sup> Information is of crucial importance especially if an organization accesses the global market for the first time.<sup>5</sup>

The reasons for an unfavorable international position of our economy and organizations can be found withing *internal and external factors*. Internal factors primarily refer to the application of an inadequate global strategies of our enterprises, which in an inasequate way represents to the global public their potential for international cooperation. When speaking about external factors, it should be emphasized that the functioning of our economy in the conditions of isolation during the last decade of the twentieth century, as well as armed conflicts certainly have not contributed to its positive publicity abroad. Therefore, our country is expected to undertake the necessary efforts in the direction towards improving the image of domestic economy in order to send a clear message to the world that we want to build an economic environment which will guarantee safety of business conditions.

Adjusting development strategies of domestic enterprises to the conditions of global business must be, as previously said, sinchronized with the activities of the country in relation to the improvement and promotion of export in order to create the image of a national economy with an international character. The contribution of international recognition of our organizations can come from influential people or friendly companies of other national economies which would promote through their attitudes the place and role of our enterprises on an international level.

The existance of a high level of risk which implies appearance on the global market by domestic enterprises, demands a very careful choice of forms of entering global processes. Domestic companies with greater economic strength can more successfully be involved in international competition than those companies whose strength and resources are on a lower level. Smaller domestic companies should choose a form of entry which demands less expenses and risk, that is, a form which separates them among several partners.

#### 4. Chances and dangers for domestic enterprises

The changes of the global market environment in modern conditions lead to constant increase in the number of market participants and strong strengthening of competition. Only active participants that have an initiative and are capable of doing business according to the market rules and principles can count on an adequate treatment and favorable market perspective in such conditions. Domestic economic participants in the described environment must greatly respect the changes because the times of enterprises being attached to the domestic market as the basic one are definitely part of the past times.

In order to train their enterprises for continuous, radical adjustment to the emerging conditions, managers must redefine the business strategy and then redesign the organizational structure. When redefining the strategic commitment, our enterprises need to start from the European and world market as the business horizon despite their size and power.

In the initial phase of internationalization, our enterprises should use the forms of mutual arrangements with local partners and upon obtaining optimal experience can

<sup>4</sup> Gallouj, F. 2002. *Interactional innovation – A neo-Schumpeterian model*, u Sundbo, J. Fugang, L. *Innovation as Strategic Reflexivity*, Routledge, London and New York, pp. 35-36.

<sup>5</sup> Douglas P. S., C. S. Craig,, (1997) Глобална маркетинг стратегија, ПС Грмеч, Београд, стр. 123

become more independent by repurchasing the capacities of the local partner, by founding their own branches etc. Besides the chances given by the global market, domestic enterprises can face numerous dangers. Dangers of globalization can be defined through:

- creating dependency,
- reducing management creativity,
- loss of corporate identity,
- weakening its own brands,
- decreasing utility of the obtained experience,
- loss of possible higher profits,
- loss of market share on the domestic market.<sup>6</sup>

*Creating dependency*, as one of the dangers domestic companies can face, may result in case of their connection according to long-term mutual arrangements with global companies. In such situations, possible termination of business relations with partners from abroad can lead to the reduction of future capacities of domestic enterprises to adequately react to the changes.

*Long-term connection of domestic companies to global companies* influences the weakening of creativity and innovativity of domestic managers. Implementation of their business activities, the creation of which they do not fully participate in, certainly is demotivating for their activity.

*The loss of corporate identity* is also a danger for domestic companies in global conditions of business. It can emerge as a consequence of small possibilities of identification of domestic enterprises on international scales.

*Weakening its own brands* of products is also a danger, having in mind the fact the dominant engagement of domestic enterprises in the production of foreign products can lead to the loss of identification of the names of enterprises and their products within national frameworks.

Having in mind the fact that dynamic, aggressive and innovative management is a framework for successful appearance of a company on the global market, the decreasing utility of marketing and management experience of domestic companies (which can arise because they are internationally famous and are not innovative), also presents a danger for successful international appearance. Namely, initial success can lead an enterprise into a stable but, at the same time, uncompetitive position because the way of thinking of management strengthens old habits, stops new ideas and creates inflexibility. In that case, an enterprise has highly developed technology but it is not competitive because it lacks innovativity.

## **5. The need for creating global leaders and managers in our country**

Having in mind the role of leadership and management in modern conditions of business, it is obvious that in conditions of transition, there is a growing need for *global leaders and managers in our country*. Modern domestic enterprises do business in radically new conditions which demand new knowledge and abilities of managers and leaders, as well as the awareness of inevitability of radical changes of the strategy and structure.

The business environment of our country demands *inventive and creative leaders* who manage knowledge and information, ensure entrepreneurial atmosphere and

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<sup>6</sup> Ерић Д., (2000) “Увод у менаџмент“, Чигоја штампа, Београд, стр. 234.

create organizations based on teamwork. Problems that arise from quick transitional, organizational changes in which a great number of people participate can be quickly overcome if there are change leaders who are capable of inspiring and motivating the employed. In contrast to this, nowadays managers, in its original, traditional sense, who manage linear organizations and people, are needed less. In the new environment, there is no place for such managers. Managers who think that they can manage a process only if they control the subordinate in a linear organization and feel lost in modern, virtual, team organizations can be good managers at a lower level but not at all modern leaders. Equally, managers who exchange opinions build a strategy and make decisions for colleagues on the same level and do not include the employed from the organization which they are managing, will never be good leaders that will be partners with their associates – partners who share both the risks and the responsibilities, as well as successes and failures.

Changes, internalization and modernization of the business process to real leaders in our country must come first, which means that they should think less about internal organizational issues, such as hierarchy, procedures and internal goals and think more about how to reach high values, better and faster than their competitors. True change leaders certainly use formal structures for communicating and determining priorities, but in reality they must depend on other options in order to reach their goals. Most traditional managers avoid risk in affairs which are beyond their formal areas of responsibility and are reluctant to cross formal limits. Risk is part of all affairs and those not ready to risk cannot realize significant results. In contrast to traditional leaders, modern global leaders must always look for new opportunities for crossing the organizational limits if that is the way to accelerate changes and accept new initiatives.

If taken into account the fact that in conditions of transition of the economy of the Republic of Serbia a great number of global organizations take investment steps in our countries, then it is clear that in such an environment only those domestic managers that positively and fearlessly view the changes and those who constantly direct their activities towards entering world integration flows can be present in the future. Arrival of managers and leaders from abroad certainly brings significant qualitative changes in the system of managing organizations which perform their business activities on our territories. On the other hand, that presents a great basis for active incitement of the process of creation and development of domestic leaders and managers. If our response to such changed economic circumstances is based on respecting change and active management of changes, then Serbian management will have an opportunity to become a moving force which will direct domestic economy towards improving general economic efficiency and creating a business environment in which leaders and managers will greatly contribute to the business success of organizations and the overall economic progress.

## Conclusion

The difficulties faced by our economy, as well as global trends in the field of market globalization, impose many urgent challenges which must be fulfilled. In these new circumstances, the management of domestic companies is expected to search for competitive advantages, that is, to be eager to adapt to continuous change. Developed countries should be taken as an example, where there is an impressive innovation development and which affect less developed countries in a positive way. Without firm integration into the world market trends, our enterprises cannot resolve their own problems, and the absence of capability to identify the chances and dangers of a global

environment can seriously impact their significant appearance on the international market.

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