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STRATEGIC MANAGEMENT IN A COMPLEX GEOPOLITICAL AND ECONOMIC CONTEXT

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Abstract: *After the end of the COVID-19 pandemic, markets and economies were expected to stabilize in the sense of returning to average growth trends so that strategies and strategic management in organizations would be much more straightforward and predictable. Not only has the economic recovery not happened, with dramatic consequences, at least in terms of productivity, trade, and tourism, but developments on the international stage in the post-pandemic period, including the conflict in Ukraine, the failure of Silicon Valley Bank, Signature Bank, and First Republic Bank in the US, the takeover of Credit Suisse by UBS Bank in Switzerland, the social upheavals in France and Israel, do not support this stabilization, but on the contrary create fears of cascading events, contagion and widespread seizure of the international security environment. Thus, we consider the question: Is strategic management still relevant in a complex, fluid, and challenging context?*

Keywords: management, strategy, organization, geopolitics, uncertainty

1. Introduction

Success in any business is essentially based on knowing and making the best use of one's capabilities and adapting appropriately to changing conditions in the external environment of that organization. In order to manage the activities in the organization, even if we focus only on the two directions mentioned above, we need to be aware of designing the steps we will take to achieve the desired results. The future is often difficult to predict due to the lack or limited amount of information relevant to the organization's activities and due to the sinuous evolution of influencing factors, be they tangential or independent, which can have implications for how the organization operates. We are convinced that without analysis and description of the future that is as exhaustive as possible, it is impossible to act at the managerial level, as is also revealed by the various studies in the field of general management and strategic management in particular. [1] However, regardless of the level of predictability achieved respecting the evolution of the context in which the organization exists and operates, top management has to take several risks in terms of decision-making, exposing the organization even to 'disaster' [2].

2. Empirical analysis of the current geopolitical and economic context

The external environment of an organization has a double relevance to its life: firstly, it generates the set of benchmarks that the organization has to take into account in the design of the future phase, and secondly, it validates in a positive or negative sense what the organization will carry out in the given time horizon. In the following, we will analyze

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the impact of some highly topical geopolitical and economic events on the strategic management process in organizations belonging to the European zone.

2.1. Conflict in Ukraine

One of the important chapters of a strategy is represented by the price evolution of raw materials and materials because the ante calculation of all costs and prices is based on the value of this input. The outbreak of the conflict in Ukraine on 24 February 2022 triggered a major energy crisis in the EU, with a significant, at times excessive, increase in natural gas prices [3] from an average price of around EUR 80/MWh in January 2022 to an average price of EUR 140/MWh in November 2022.

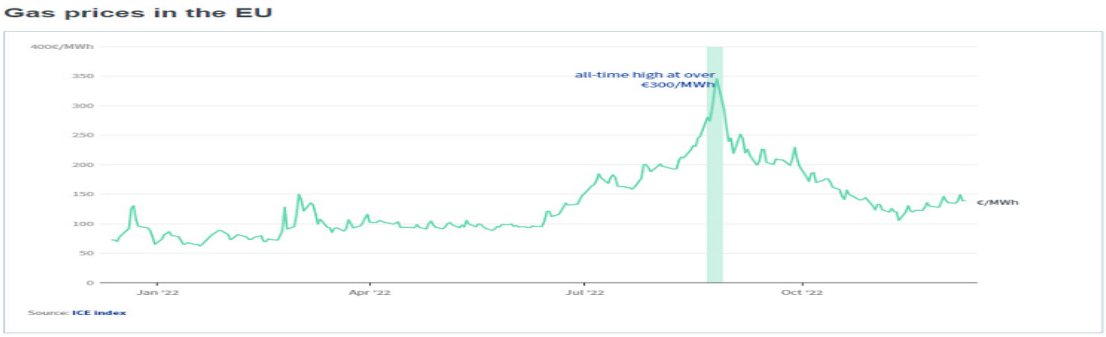


Figure 1: The evolution of the natural gas's price in the European Union
Source: https://www.consilium.europa.eu/ro/infographics/a-market-mechanism-to-limit-excessive-gas-price-spikes/.

The evolution of this factor has widespread effects across all organizations, requiring adjustments to long-term objectives. In order to prevent further energy shocks, some measures have been taken at the EU level, including the approval of a correction mechanism for the gas price market from 15 February 2023, when the 180 euro/MWh limit is exceeded.

Another area affected by the conflict in Ukraine is the agri-foodstuffs market, with a negative impact on the prices of these products due to the reduction in cereal supplies due to Russia limiting cereals' exports from Ukraine, one of the world's top ten cereal producers.

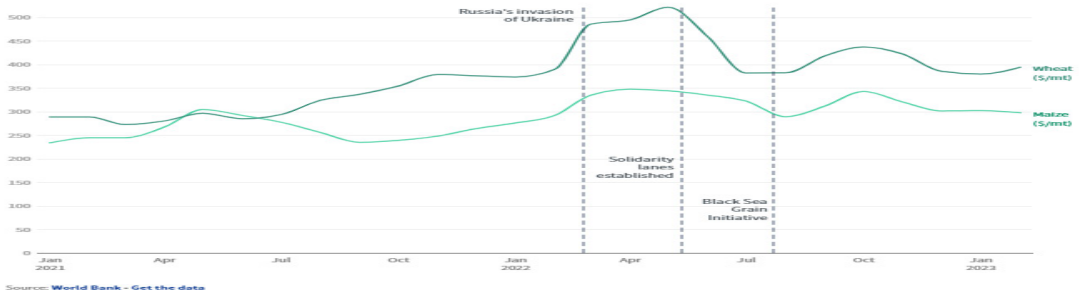


Figure 2: The evolution of grain's prices on the world market
Source: https://www.consilium.europa.eu/en/infographics/ukrainian-grain-exports-explained/.

Moreover, both Ukraine and the Russian Federation play a significant role in the global agricultural market (production and export), which means that the war in Ukraine generates significant risks for the agricultural sector from multiple perspectives: price, trade, logistics, energy, and, last but not least, humanitarian risk. [6]. As can also be seen in the graph above (Figure 2), cereal prices have been on a much stronger upward trend than expected before the conflict. At first glance, only the strategic objectives of firms operating in the agri-food sector should have been adjusted. However, things must be considered whole without excluding individuals and states.

On the one hand, the situation affects each consumer's budget, forcing them to change their priorities in terms of spending. On the other hand, and we can indeed speak of a strategic level, it has been necessary to readjust the policies of other states in order to at least partially cover the disruptive situation created: finding alternative sources of supply, weighing up the temptation to increase the price and facilitating the transit of Ukrainian grain.

2.2. The global banking system

Problems in the markets for goods and services caused by various more or less predicted phenomena have also had unprecedented implications for the banking system, nationally and globally. The events in the first months of 2023 in the banking sphere also affect organizations' functionality levels. The failure of the US banks Silicon Valley Bank [7], Signature Bank [8], and First Republic Bank [9], as well as the takeover of Credit Suisse by UBS Bank in Switzerland [10], have led the central banks of those countries and the EU to identify and take measures to prevent further failures in this sector and to limit the current inflationary effects.

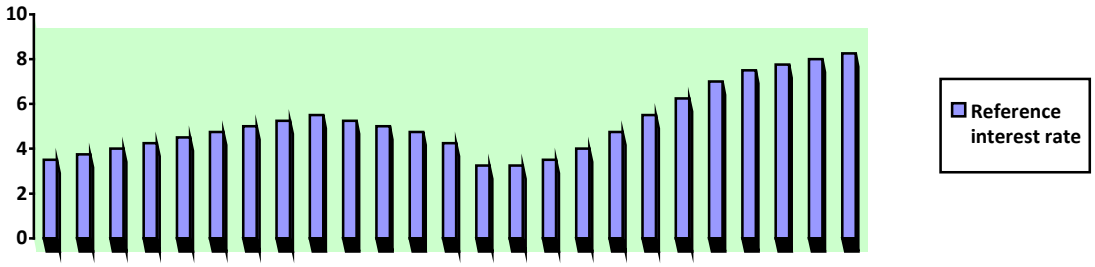


Figure 3: The evolution of the reference interest rate of the American Central Bank
Source: https://newsroom.bankofamerica.com/content/newsroom/home/prime-rate-information.html.s.

The chart above shows a sharp increase of about 5 percent in the US central bank's benchmark interest rate in almost a year. Concerning the evolution of this indicator, there are extreme pressures on the conduct of day-to-day business in terms of the availability of financial resources that can jeopardize the achievement of strategic objectives in any organization.

Table 1: The evolution of the reference interest rate of the European Central Bank

Date (with effect from)		Deposit facility	Main refinancing operations		Marginal lending facility
			Fixed rate tenders Fixed rate	Variable rate tenders Minimum bid rate	
2023	10 May	3.25	3.75	-	4.00
2023	22 Mar.	3.00	3.50	-	3.75
2023	8 Feb.	2.50	3.00	-	3.25
2022	21 Dec.	2.00	2.50	-	2.75
2022	2 Nov.	1.50	2.00	-	2.25
2022	14 Sep.	0.75	1.25	-	1.50
2022	27 Jul.	0.00	0.50	-	0.75
2019	18 Sep.	−0.50	0.00	-	0.25
2016	16 Mar.	−0.40	0.00	-	0.25

Source:https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.en.html.

Also, in the European area, the European Central Bank has acted in the same direction of raising the benchmark interest rate, with an increase of about 3 percent in only one year, which shows a more conservative attitude towards anti-inflationary measures. Central banks' actions to manage the functioning of the banking system as well as possible are standard. However, for firms, they create a delicate problem as regards the possibilities of identifying new sources of financing to

support mainly short-term activities, but with implications for the whole strategic management process.

2.3 Large-scale social protests over changes to specific legislative provisions

Generally speaking, protests should not affect the strategic management process, as they are a matter of the 'individual-state' relationship and are based on the right to protest provided for in various forms, including international treaties (European Convention on Human Rights [11], International Covenant on Civil and Political Rights [12]). The analysis is, however, differentiated according to the nature of the protests: protracted and anti-reform. These are the long protests (over two months), the anti-reform protests over the change in the retirement age in France [13], and the anti-judicial reform protests in Israel [14]. These two events need to be considered as they can have implications for any organization, especially at the European level, because of the risks that can arise, particularly in the transport sector, both passenger and freight. Also, if we analyze the issue at the heart of the protests in France, raising the retirement age or increasing the active working age. This has been under discussion for some time both within civil society (academic and employers' organizations) and at the political level as a solution to limiting the effects of the negative natural increase and the fall in the number of people in work. Prolonging the period during which these protests will take place can only be harmful to the economic environment, and there must be alternatives for reconfiguring certain specific elements of strategic management in order to eliminate the jeopardizing of the objectives in question. Adaptation to new conditions and the necessary recovery from disruptive events occurring in the organization's external environment, or, according to the current specialized vocabulary, resilience, is not a new research topic in the field of strategy [15]. Hazard, uncertainty, and the level of management motivation make decision-making difficult in an unstable environment [16].

3. Ways of adapting strategic management to the current and future geopolitical and economic context

Given the phenomena analyzed above - phenomena that have a large-scale impact and to which can be added a multitude of other phenomena or events that have only a local or regional impact - the design of the strategic management process becomes a crucial stage from the perspective of the performance that the organization wishes to achieve.

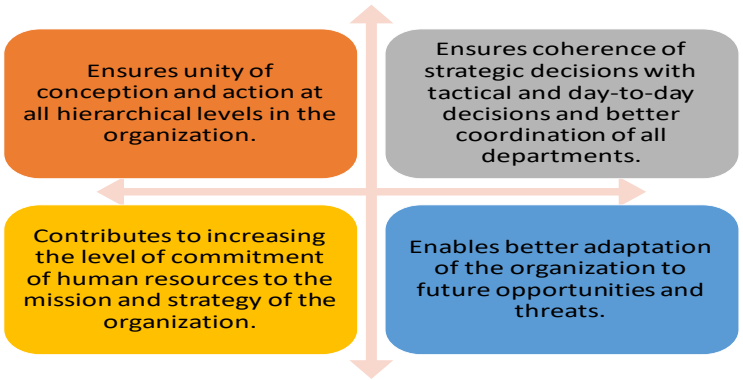


Figure 4: Advantages of using strategic management
Source:Thietart, R.A., Xuereb, J.M., Strategies. Concepts. Methodes. Mise on oeuvre. Editions Dunod, Paris, 2009, pages 47-58 [17].

Identifying solutions to help improve strategic management in a volatile and unpredictable environment must start from the advantages of carrying out this process in any organization (Figure 4).

In this context, we consider the following actions to be appropriate in an organization to achieve effective strategic management:

- *Buffer stocks for raw materials and materials essential to production processes in the organization*. The solution aims to prevent two unfavorable situations that can negatively influence the timely conduct of activities: delays in the supply of raw materials and materials and sudden increases in prices. Because it is essential, in the process of achieving the objectives set out in the adopted strategy, to meet the deadlines and to keep within the initial production calculations, which were the basis for the decision to approve this strategy;
- *The human resources strategy should be based on two-time aspects: long-term employment contracts (minimum ten years) and medium-term employment contracts (maximum five years)*. Providing human resources with professional skills that are as relevant as possible to the implementation of the strategy is essential. In this context, we consider it appropriate to break down human resources, according to the critical areas and aspects of the strategy, into two categories (basic and regular), for which two approaches should be developed concerning the duration of contracts concluded with the respective categories of staff. In this way, effective motivation systems can be set up, and human resource costs kept under control during the course of the strategy;
- *Provisioning of financial resources to cover about half of the duration of the strategy adopted*. The sinuous and, above all, sudden upward trend in raw material and material prices or production costs may limit the organization's ability to carry out the specific strategic management process. Looking at recent events in the banking sector, it can become problematic to finance certain stages of the strategy by accessing short-term loans or lines of credit due to the sharp rise in interest rates at both national central banks and commercial banks. We support the idea of setting up higher provisions, of a minimum of 25% and a maximum of 50% per annual budget within the strategy, on the one hand, in order not to jeopardize its implementation and to be able to exploit opportunities arising from unpredictable market developments, on the other;
- *To abandon, as far as possible, the outsourcing of the distribution of own products and transfer their marketing to the online environment*. Traditionally, during periods of economic stability, it is more cost-effective for any organization to outsource logistics activities (warehousing, transport, Etc.) to firms specializing in the field in question. Nevertheless, when phenomena such as those described in the previous sub-chapter take place over a more extended time, they can jeopardize most components of the organization's strategy. That is why one of the solutions that can remove obstacles in the area of the commercial function would be to internalize some of the logistic activities and streamline the sales processes by moving these activities online.

Depending on the specifics and particularities of each organization, the proposed solutions can be developed or not multiplied or reduced within the adopted strategic management process. The effectiveness or efficiency of these proposals can be determined after going through a complete strategic cycle rather than by segments and only if this level of uncertainty is maintained in national, regional, or global markets.

4. Conclusions

Management, as a process, needs to be proactive to achieve its effectiveness and efficiency requirements. It can be compared to a game of chess, where a good player knows at least seven moves ahead of the current situation on the chessboard. The

level of predictability about an organization's future, both in terms of its internal environment and environment, determines the quality of the design, structuring, and implementation of a strategy. Although current and future conditions are dynamic and complex, with frequent and, at times, unpredictable changes, a strategic management process should still be put into practice. Final conclusion: *Strategic management in an organization is relevant regardless of the uncertainty about the future*, but a number of adjustments are needed, especially with the organization's ability to respond to situations that could not be predicted before, which reveals the organizational impact of geopolitics.

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