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Business Management

MBA Essentials

Preface

Any type of organisation, whether a private or public, a profit or non-profit oriented organisation, needs to be managed efficiently and economically to accomplish its mission. Management is now a mass profession in the modern industrial world and is growing rapidly even in emerging and developing countries, but management is often practiced without systematic training.

This book is based on the author's experience in management and consulting as well as on conception and lectures in MBA programs worldwide. The basics of modern management are introduced systematically and easily understandable. Focus is on the scope of action as a responsible manager, e.g. as board member or managing director of a division or business unit, as department head, team supervisor or as project or process manager or as senior expert.

The structure leads step-by-step from corporate policy and external influences as well as innovative management trends and corporate strategies to operational controlling, leadership and organisational forms. Finally, questions about the company's constitution and a brief overview of the history and current role of modern management are asked, including exercises on self-management. The main chapters focus in their first part on daily management tasks, in the second part the usual management concepts and tools are shown.

The target group is especially young managers and specialists from other fields of expertise who are preparing

for a management position e.g. with degree in General Management or an MBA.

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*Since English is the first or second official language with its
own expressions
and spellings in more than 80 countries, no uniform spelling
is considered.*

*Most people spend more time and energy going around
problems than in trying to solve them.*

Henry Ford, 1863-1947

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Abbreviations

A.	Auflage
approx.	approximately
AG	Aktiengesellschaft
A/S	Aktieselskab
BCG	Boston Consulting Group
B.V.	Besloten vennootschap met beperkte aansprakelijkheid
chap.	Chapter
CI	Corporate Identity
cm	centi-meter
CSR	Corporate Social Responsibility
CSV	Corporate Shared Value
Dpt.	Department
ed. / eds.	Edition, edited by
EFQM	European Foundation for Quality Management
e.g.	for example (exempli gratia)
esp.	especially
est.	established
etc.	et cetera
€	Euro
EU	European Union
e.V.	eingetragener Verein
fig.	Figure
(g)GmbH	(gemeinnützige) Gesellschaft mit beschränkter Haftung
gUG	gemeinnützige Unternehmergesellschaft

HR	Human Resources
HRM	Human Resources Management
Hrsg.	Herausgeber
Hz	Hertz
ICT	Information & Communication Technologies
incl.	including
KPI	Key Performance Indicator
Ltd.	Limited
m	meter
MBA	Master of Business Administration
MbD	Management-by-Delegation
MbE	Management-by-Exception
MbO	Management-by-Objectives
MbR	Management-by-Result
MbS	Management-by-Systems
MINT	Mathematics, Computer Science, Natural Sciences, Technology
MIT	Massachusetts Institute of Technology
m&a	mergers and acquisitions
NGO	Non-governmental Organisation
OECD	Organisation for Economic Co-operation and Development
p. / pp.	Page / Pages
PLC	Public Limited Company
publ.	published by
QM	Quality Management
ROI	Return on Invest

rpt.	Reprint
R&D	Research and Development
SE	Societas Europaea
SHG	Self Help Group
SME	Small and medium enterprises
SWOT	Strengths, Weaknesses, Opportunities, Threats
TQM	Total Quality Management
UA	Unified Architecture
UK	United Kingdom
UN	United Nations
UNICEF	United Nations Children's Fund
US / USA	United States of America
USD	US Dollar

1. Corporate Policy and Management

1.1 Corporate Policy

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1.1 Corporate Policy

1.1.1 Economic Principles and Corporate Objectives

The ***Principle of Profitability*** (so-called *economic principle*) requires the best possible effort (e.g. costs) in relation to the benefit (e.g. yield). Traditionally it is differentiated:

- *Maximum principle*: achieve the highest possible return with a given effort (e.g. for private companies), or
- *Minimum principle*: achieve a certain return with the least possible effort (e.g. public sector, NGOs).
- The *Optimum principle*: social criticism today leads to the combination of these both approaches as a possibly favourable relation between Input (e.g. costs, resources) and Output (e.g. earnings, goods, services, sustainability).

Example *Criticising the Principle of Profitability*

Even the most successful entrepreneurs repeatedly question the sole maximisation of profits.

Henry Ford, already over hundred years ago, realized that *doing business on the basis of making money is a highly uncertain thing (...) the job of business is to produce for consumption, but not for profit or speculation. Production for consumption requires that the quality of the production article is good and that the price is low – that the article in question serves the people and not only the producer.*¹

In our times almost 200 of the leading US-entrepreneurs (e.g. from *Apple* to *Pepsi* and *Walmart*) are moving away from maximizing profits in a public statement. They distanced themselves from a pure shareholder-value approach by defining new principles of corporate management: ... *we know that many Americans have problems. Too often hard work is not rewarded and enough is not done to allow workers to adapt to the rapid pace of economic change.* In the future, the focus will be more on

investing in employees, in environmental protection and in fair and ethical dealings with suppliers.²

Even seemingly rational economic action is often based on incomplete information. It is not certain whether the goals or advantages later prove to be correct or sufficient, whether alternative approaches would have been more efficient, or whether the socio-political framework remains unchanged until the assessment. The Maximization of the individual performance as a guiding principle must also be viewed critically today, as it often leads to social problems (e.g. unemployment) or environmental damage.

Typical corporate objectives often relate to dimensions as performance (sales, market share, product quality), successes and finance (costs, profits, profitability, liquidity, investments) as well as individual (small businesses: e.g. subsistence economy, shareholders: e.g. power), and if applicable ethical goals (NGOs: non-profit).

In [fig. 1.1](#) typical corporate policy objectives (e.g. profit and rentability) are operationalised step by step (example: production) from the general corporate to the individual workplace objectives.

Corporate Policy	<i>Increase Profit and Rentability</i>		
Divisional Strategy	<i>Production</i> ↓ reducing production costs	<i>Finance</i> ↓ optimal liquidity	<i>Sales</i> ↓ ...
Department Objectives	<i>Work Preparation</i> ↓ reduce set-up times	<i>Production</i> ↓ cost reduction per unit	<i>Maintenance</i> ↓ extend maintenance phases
Team Objectives	↓...	↓ <ul style="list-style-type: none"> ◦ 3-shift 24/7 production ◦ performance bonus ◦ reduce drop-out 	↓ ...
Workplace objectives	↓...	↓ <ul style="list-style-type: none"> ◦ willing to do shift-work and overtime ◦ individual quality control ◦ reduce absent-time 	↓ ...

Fig. 1.1: Operationalisation of Corporate Objectives

NGOs and Social Business

Non-Governmental Organisations (NGOs) primarily non-profit oriented (e.g. working in sectors like social welfare, human rights, nature and environmental protection, international development cooperation or cultural support and education). They must also be managed efficient in order to fulfil their mission in the interests of their sponsors. Accordingly, NGO-Management can be compared to traditional management in many areas: Differences are usually the criteria for success (quality, benefits, etc. instead of profit) and in some in functions as well, for example fundraising in marketing or in HR Management employment of volunteers.

Big NGOs often have profit-oriented subsidiaries (service, consulting, trade and retail) and transfer the profit into the parent NGO.

Example German Caritas

(see example [chap. 5.2.3](#))

Cooperative and non-/limited-profit oriented businesses have a long tradition e.g. in Europe since the 1860s – e.g. as concept of production, trade or banks in form of a cooperative, in health care by public law or churches – and has been somewhat forgotten in the recent past or was a niche sector.

Social Business, structured like a traditional business organisation, is understood with the main inter-dependent features solving important social problems and the investors forego speculative profits following a double bottom line principle (economic thinking plus social impact).

Example FLOCERT GmbH

... est. 2003, based in Bonn/Germany, is a 100% subsidiary of the *Fairtrade Labelling Organisation* FLO e.V. as an independent audit and certification company for Fairtrade standards. In more than 120 countries *FLOCERT* works for more than 5,000 customers – from small producers in developing countries up to global resellers (as of 2019).

Because CSR programs in companies often are not really sustainable, there are more and more new approaches to social business are coming up in all industries, they differ from country to country due to national corporate and tax laws (for examples and differentiations see [chap. 2.1.5 Ethics, CSR and Social Business](#)).

1.1.2 Corporate Policy and Management

Corporate Policy (*policy*: consciously enforcing will) is decision making and design of the long-term corporate goals and their adaptation to internal and external framework conditions or influences – as basis for following operationalized divisional, department etc. planning activities (see [fig. 1.1](#)).

The management is transferring these decisions with designing corporate structures and systems and behaviour to form the corporate policy goals,

- *institutionally* as the *Management* (e.g. Board, Department Head, Team Manager or Project Manager), and
- *functionally* as manager's activities (e.g. planning, decision making, controlling or leadership) in their different hierarchic and functional competencies.

Influences on Corporate Policy

The diversity and complexity of the influences on corporate policy are resulting from the many different internal and external stakeholders, guided by the company's activities (e.g. company history and shareholders, location, employees and works council), from the environment (e.g. natural resources, markets, politics, legal system) and megatrends (technology, changing values, demography).

Claims of internal and external interest groups on companies:

- *Manager* (job satisfaction, high income, prestige and power, self-development and career opportunities ...),
- *Employees* (job and social security, healthy work conditions, education and career opportunities, social contacts ...),
- *Shareholder* (high dividends, growth of assets, influence on the corporate's development ...),
- *Banks* (secure loans/interest payment, long-term relation),
- *Customers* (price/performance ratio, security in delivery and service, additional services, advice, customer loans ...),
- *Suppliers* (solvency, long-term relation ...),
- *Competitors* (e.g. fair competition, keep industry image, possibly cooperation),
- *Public sector* (e.g. taxes, job security, environmental protection, compliance with laws, political and social interests, support public economic policy),
- *Collective partner* (compliance with and participation in a collective agreement, fairness of the negotiations ...),

- other interest groups are e.g. *Political Parties, Churches, Unions, NGOs, Cartel Partner and Associations* which formulate claims on companies from their individual perspectives.

Influence of the corporate environment

- *Economy* (markets, supplier/customer, investors, branch development ...),
- *Compliance environment* (tax and duties, laws ...),
- *Ecology* (climate change, natural resources, ecological balance ...),
- *Social environment* (values, education system, demography and diversity, income distribution ...),
- *Technology* (innovation and ICT development ...),
- *Politics* (political will formation and stability, development of political and social systems ...).

Example *Relevant developments in Corporate Management*³

(Fresenius SE, excerpt)

Environmental developments

- Healthcare remains one of most important global economic sectors.
- Above-average growth in health sector over past few years.
- Significant growth drivers, esp. in the emerging countries.
- Extensive stability of the framework conditions relevant for the operating business.
- Constantly increasing healthcare costs in OECD countries.