

Rico Baldegger

Management in a Dynamic Environment

Concepts, Methods, and Tools

Second Edition

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Rico Baldegger
School of Management
Fribourg (HEG-FR), HES-SO
Fribourg, Switzerland



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What others say about this book

“This new edition includes expanded content on timely topics such as sustainability, corporate responsibility, and circular business, aiding business schools to pursue societal impacts. End-of-chapter materials facilitate discussions and group activities, while the variety of company examples enables students to understand different types of dynamics. Overall, this is a practical and user-friendly textbook suitable for various degree levels.”

Dr. Amy Z. Zeng, Dean and Professor, Sawyer Business School, Suffolk University

“By offering holistic insights for management and adopting a multi-dimensional perspective on firms and their activities, “Management in a Dynamic Environment” provides readers with a much-needed framework to understand the complex task of navigating organizations during our transformational times. Baldegger has created just the right book for novice and experienced managers who are searching for opportunities for profound reflection, new inspiration, and practical guidance supported by compelling examples.”

Prof. Dr. Marc Gruber (EPFL), Best-selling author of “Where to Play: 3 Steps for Discovering your most valuable Market Opportunities”

“What sets this book apart is its ability to seamlessly integrate three major management areas into a comprehensive, intuitive learning experience. The book provides a clear and structured foundation of management knowledge by focusing on key management models and system-oriented approaches. It’s perfect for executives and economics and management students, offering essential insights into corporate management principles while staying grounded in simplicity and clarity. The practical examples, interpretative questions, and case studies at the end of each chapter make transitioning from theory to practice effortless, allowing readers to reflect and critically examine new approaches. This unique combination makes it an indispensable resource for anyone looking to gain a solid grasp of business fundamentals.”

Dr. Ayman ElTarabishy

President & CEO, International Council for Small Business (ICSB)

Editor in Chief, Journal for Small Business Management (JSBM)

Deputy Chair, Department of Management, GW School of Business

“This outstanding resource brilliantly bridges the gap between theory and practice in management. With its comprehensive coverage of fundamental models and practical examples, it’s an indispensable resource for anyone looking to enhance their managerial skills.”

Dr. Nicolas Durand, CEO Foundation Campus Biotech Geneva

“Rico Baldegger’s *Management in a Dynamic Environment* is an insightful resource for those looking to enhance their understanding of modern management. This book is not just a management guide — it’s a toolkit for thriving in today’s whirlwind of change. It is like a masterclass in navigating the chaos of modern businesses where creativity and innovation are the top competencies needed in organizations. The blend of fresh case studies and real-world examples provides insider knowledge from some of the world’s top companies. This second edition integrates theoretical foundations with up-to-date stories from global leaders such as Nestlé, Ferrero, and Logitech. The way the book combines sustainability and corporate responsibility with practical case studies makes it not only relevant but invaluable in today’s fast-evolving business environment. Rico has crafted a clear and accessible framework that equips managers — whether new or experienced — with the tools they need to critically analyze and adapt to dynamic challenges. I highly recommend this book as a comprehensive resource for those seeking to expand their management acumen.”

Katia Passerini, Ph.D.

Provost and Senior Executive Vice President

Seton Hall University, New Jersey, USA

“Rico’s book is a testament to the power of management tools that support innovative thinking and strategic leadership in today’s dynamic business landscape. It offers a wealth of practical insights and actionable advice that reflect Rico’s deep understanding of the challenges and opportunities facing modern organizations. I highly recommend this book to anyone seeking to enrich and refresh their toolbox to inspire excellence in organizations.”

Dr. Markus Venzin, Chief Executive Officer, EHL Hospitality Business School

“Rico Baldegger’s work is a beacon of dynamic management principles, fostering innovation and strategic growth. His open-minded approach offers invaluable insights that resonate with today’s leaders.”

Mouad Lamrani, PhD., Director Menicon Co., Ltd, Geneva and Takamori-dai (Japan)

“This new edition of Rico Baldegger’s handbook, on the way to becoming a classic, is particularly welcome. Its holistic approach to management, its theoretical support always illustrated by concrete examples, and its style, which happily reconciles academic concerns and practical will, makes a reference work on these subjects at the heart of teaching and

research in management sciences. The acceleration of transformations in the discipline, impacted like others by the digital revolution and the immense management challenges sustainability, deserved this update, which will undoubtedly be a great success.”

Prof. Alain Bloch, Ph.D, Emeritus Professor, Centre Entrepreneuriat & Innovation,
Co-founder MSc X-HEC Entrepreneurs, HEC Paris

“Rico Baldegger brings us a fresh approach based on examples that are as precise as they are striking, enabling us to understand our times better and feel the «Zeitgeist».”

Laurent Lecamp, Managing Director Montblanc Watches and Writing Instrument.

Preface

This book provides fundamental management knowledge for executives and students in the economics and management studies faculties of colleges and universities. It is aimed at all readers who would like to gain basic business knowledge in a clearly structured way based on functional management studies.

In line with this philosophy, the book has been deliberately restricted to specific management models and approaches. On the one hand, it is aligned with system-oriented management studies, and on the other, it is dedicated to the principles of simplicity and adherence to the fundamentals of corporate management. Fundamental aspects of management are described, and based on this model, the enterprise is sketched to serve as a roadmap, so to speak. This allows the readers to navigate the book easily, to reflect, and then to set new approaches in context and examine them in a critical light. The occasional practical examples, the interpretation questions, and the short case studies at the end of the chapters simplify the switch from theory to practice.

The discussions of strategy, structure, and culture naturally consider innovation and change in depth. Innovation and change are among the emergent characteristics of an enterprise, especially since no functioning, viable enterprise can be established without the ability to take the existing and the new equally into account. Management means implementation. So operational and strategic factors, the existing and the new, the evolutionary and the revolutionary, simply cannot be considered in isolation. The book's concluding reflections on innovation and change emphasize a key area in sustainable management.

What's New in This Edition?

This updated edition's goal was to ensure that all content was cutting-edge and fresh. Here are some of the things that are new in this edition.

- New case studies, stories, interviews, and quotations have been included.
- Every chapter starts with a view from the media referring to current management situations of companies.
- New research and content are included, like Corporate Social Responsibility, Holacracy, or the update of the cultural typologies.

We believe these changes will make the updated version more interesting and compelling to read and inspire the readers.

Rico J. Baldegger

Boston (USA)

October 2024

Foreword

This book is a breadth of fresh air in the business literature. What sets this work apart is its systemic view of what makes enterprises of all sizes — small and large — successful. Unlike much of the existing management literature Prof. Baldegger does not proclaim to have found the “silver bullet”, that will by itself unlock business success.

Rather, he elaborates for and with us that it is the careful interplay of strategy (how we can win), structure (how we are organized) and culture (what we collectively value) that makes the difference between stagnant and successful firms. On over 400+ pages the author guides us on a journey through the past, present, and future of business innovation with a well curated selection of frameworks, examples, quotes, and case studies.

Of the three pillars in this book the last aspect — culture — is probably the most overlooked. As a leader in business and academia, and as the former Dean of a highly successful and innovative business school in Switzerland, Prof. Baldegger has been exposed daily to a confluence of languages (German, French, Italian, English, Chinese and others), viewpoints (centralized, decentralized, entrepreneurial) and management traditions and models. This multi-modal, multi-lingual, and deeply humanist way of thinking is what is needed in a business environment that is in danger of deconstruction and daily challenges by nationalism, protectionism, and the accelerating effects of climate change.

Rather than highlighting only the downsides and risks, this book gives us hope. I have had the chance to observe Rico as a Dean, lecturer, leader, and friend on many occasions both in Europe and during his annual executive MBA and entrepreneurial visits to Boston over the last decade. He is an exceptional human being, author, and systems thinker. The readers of this book are about to embark on a journey of knowledge and holism that can pave the way not only to successful businesses, but also a better world.

Prof. Olivier de Weck
Department of Aeronautics and Astronautics
Institute for Data, Systems, and Society
Massachusetts Institute of Technology
Cambridge, Massachusetts

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Basic Models of the Enterprise

1

“Thinking is the hardest work there is, which is probably the reason why so few engage in it.”

Henry Ford

The history of management studies — more recently called business administration — is characterized by a myriad of models and approaches to business. On the one hand, models govern an enterprise’s external relationships; these segment the environment and analyze interdependencies with the enterprise. The analysis in these cases foregrounds the various environmental issues and factors, which vary widely over time. On the other hand, some models discuss the enterprise’s internal relationships and publish conclusions about internal functions, structures, and cultural challenges.

The first chapter introduces the basic concepts of management studies, enabling these models and explanatory approaches to be set in context to some extent. The way to a system-oriented theory of management is sketched in brief. The basic environmental models are then described together with the internally oriented concepts and issues of management. The various explanatory approaches, which are historically mentioned in order of their emergence, help build an original basic explanatory model for the whole book.

View from the media: Coca-Cola increased plastic use ahead of COP27 summit it is sponsoring

New data show beverage companies, including PepsiCo are among consumer groups using more non-recycled plastics

Financial Times, November 2, 2022, by Judith Evans

Coca-Cola has increased its use of newly manufactured plastic by 3.5 per cent since 2019, casting doubt over its ability to cut “virgin” plastic use and heaping more pressure on the world’s largest soft drinks group as it prepares to sponsor the COP27 UN climate summit. Data from the Ellen MacArthur Foundation, which has drawn together a group of multinationals in a “global commitment” to cut plastic waste, show that Coca-Cola, PepsiCo and Walmart were among the worst offenders increasing virgin, non-recycled plastic use in 2021. Companies will need to “exponentially” increase their use of recycled plastic to reach an aggregate target of 26 per cent recycled content by 2025, the foundation said, after they collectively lifted their use of virgin plastic

back to 2018 levels. As part of the push to cut pollution and emissions, the companies are also targeting 100 per cent reusable, recyclable, or compostable packaging by 2025, which the foundation said was “becoming unattainable for most signatory businesses”. “All their great progress [on increasing the use of recycled plastic] has been completely undone by the sheer growth of their overall packaging use,” said Sander Defruyt, who leads the New Plastics Economy Initiative at the foundation. “It’s another illustration of the fact that we will not recycle our way out of this.”

The choice of Coca-Cola as a sponsor for the COP27 climate summit in Egypt this month has faced opposition from climate activists, as it is one of the world’s largest plastic polluters. It also faces pressure over recycling from activist investor Engine No. 1. Over the 2019 to 2021 period, Coca-Cola’s total plastic use increased 8.1 per cent to 3.2mn tonnes. Georgia Elliott-Smith, managing director of sustainability consultancy Element Four and founder of an online petition with 235,000 signatures for the company to be ousted as a sponsor, said the increase in the use of virgin plastic was “another failure by Coke to keep their promises”. “For over 30 years, they have left a trail of missed targets and abandoned pledges,” she said, adding that the sponsorship enabled them to “greenwash their brand”. Coca-Cola said it was “committed to do more, faster so we grow our business the right way. We are focused on continued action across our goals, including making 100 per cent of our packaging recyclable globally by 2025.” It said the figure was currently at 90 per cent. It is also seeking to cut virgin plastic use by a fifth during the same period. Coca-Cola added that its “support for COP27 is in line with our science-based target to reduce absolute carbon emissions 25 per cent by 2030, and our ambition for net zero carbon emissions by 2050”.

Among the largest users of plastic packaging taking part in the Ellen MacArthur Foundation’s initiative, PepsiCo increased its use of virgin plastic by 4.5 per cent in 2021 from the previous year, while Walmart raised its use by 3.4 per cent over the same period. Other big consumer goods groups, such as Unilever, Danone and Nestlé, reduced theirs, however. The use of “flexible” packaging such as sachets and films, which are difficult to recycle, is a particular problem, the foundation said. Recommended Plastic pollution World leaders agree to draw up ‘historic’ treaty on plastic pollution Defruyt said greater regulation — such as a planned global treaty on plastics — and better recycling infrastructure were needed to accelerate progress, along with greater investment in reuse rather than recycling schemes. Nestlé said it had passed peak virgin plastic use despite the growth of its business. But it said one challenge was food safety: “Food packaging is vital for protecting food against external influences such as moisture, heat, light, microbes or bacteria... plastic has made food safer.” Walmart said it remained “committed to our goal of achieving zero waste in our global operations... We ask suppliers to eliminate unnecessary packaging and plastics as the first step and, where plastic is needed, we design for recyclability.”

<https://www.ft.com/content/662d4a0d-e8f5-4cd4-b03f-05b97e13e771>

1.1 Basic Concepts of Management Studies

The still relatively young science of management studies was not placed on a methodological and professional basis until the beginning of the 20th century. As a field of study, it looks at individual companies and explores economic issues, such as sourcing, production, distribution, finance, planning cooperation, and globalization. From a historical viewpoint, one can identify three basic concepts that are obtained in this area:

- The Economic Concept: Where the economic aspect of the business is the subject of study.
- The Social Science Concept: The field is broadened to include an interdisciplinary approach, particularly with regard to related behavioral science disciplines.
- The System-Oriented Concept: The multidisciplinary science of the management of social systems with corporate management as a sub-discipline of a comprehensive management theory.
- The Economic Concept: Where management studies are seen as an economic discipline and gain their academic significance from a stringent methodological “one-dimensionality”.

The object of study in classic management studies is not the enterprise in general but its “economic aspect”. Consequently, the technical, legal, sociological, psychological, and ethical aspects of the enterprise are excluded and are instead explored within other academic disciplines. The enterprise is seen as a production operation in the broadest sense and represents a combination of production factors. This combination fulfills its purpose to a plan while observing the efficiency. The institutional subject area of traditional management studies relates to the “company” as an institution, but there is no consensus as to how broadly this term should be framed.

The Social Science Concept

The social science concept extended the economic approach by making economically active individuals and their actions central to the analysis. The individual and their behavior have increasingly been included in the object of study. More and more management studies as a social science have opened up to the behavioral science disciplines. This shift towards an interdisciplinary approach has occurred because a single discipline’s issues and insights are insufficient to do justice and solve problems in the corporate setting.

The decision-oriented approach is a concrete example of the concept of social science. It serves primarily to shape the management process and takes as its platform one single function: decision-making and one single decision-making situation.

The System-Oriented Concept

With the advance of the decision-making and system-oriented approach and the accompanying opening up of management studies to the social and behavioral sciences, manage-

ment studies are now gradually becoming more aligned with Anglo-American management studies.

The various champions of system-oriented theories (including Ulrich 1970, 2001; Malik 1996, 2013) signaled a change in direction from traditional management studies, which, until early 1970, focused on the economic aspect of enterprises. Since then, they have been more in line with Anglo-American management studies (Staehle 1999, 36ff., 161ff.).

One of its leading advocates, Hans Ulrich, sees management studies as “system-oriented studies of corporate management.” The enterprise is defined as a dedicated social system with a wide range of aspects and dimensions. Management means “shaping, directing and developing an entire, complex social system” (Ulrich 1970, 19) and is a sub-discipline of more comprehensive management studies.

Management studies assume that “business problems and their solutions do not occur in isolation in business practice, but always in combination with problems of corporate management” (Malik 1996, 22). Because management studies confine themselves to the purely economic dimension of problems, they cannot make a sufficient contribution to their solution, as the holistic shaping and direction of the enterprise as a system is a multi-dimensional problem.

As a result, the following new issues and problem situations arise (Malik 1996, 24-25):

- Should more consideration be given to the embedding of the enterprise in today’s significantly expanded environment?
- Reduction to the enterprise alone is a gross oversimplification, or rather a fundamental error, in system definition. In the sense of system-oriented management studies, the enterprise represents only part of a larger network.
- The problem of people acting within and on behalf of an enterprise must, to some extent, be described very differently than was assumed by classic management studies.

1.2 Enterprise and Environment

1.2.1 Enterprise-specific and General Environment

The view that an enterprise is associated with its environment through a large number of interactive relationships is firmly established in modern, system-oriented management studies. A system for the enterprise’s environment can be defined in various ways; one possibility is to divide the environment into general and enterprise-specific parts.

Of course, this division is a purely academic structuring tool and does not relate to actual boundaries. The enterprise-specific part of the environment describes that section of the environment with which an enterprise is in permanent contact and interaction. It can be illustrated using the idea of different markets. Resources are acquired on input markets, transformed within the enterprise, and passed on to the environment again in the form of

products or services on output markets. This process takes place in a competitive situation and under conditions that depend on certain social institutions (the state, associations, and media). The general part of the environment brings together an economic area's economic, political, social, and technological conditions.

View from the Media: Ben & Jerry's calls for a permanent ceasefire in Gaza

Financial Times January 16, 2024

Ben & Jerry's board has called for a permanent ceasefire in Gaza, in a move that risks reigniting tensions with parent company Unilever over the ice cream maker's stance on Israeli policies. "Peace is a core value of Ben & Jerry's," the company's board chair, Anuradha Mittal, told the Financial Times. "From Iraq to Ukraine [the company] has consistently stood up for these principles. Today is no different as we call for peace and a permanent and immediate ceasefire." The decision follows a long-running dispute between the board of Ben & Jerry's and Unilever over the ice cream brand's attempt in 2021 to stop selling its products in occupied Palestinian territories. To prevent the move, Unilever sold the brand's Israeli arm to a local licensee. Ben & Jerry's responded by filing a lawsuit against Unilever, in a rare case of a company being sued by its own subsidiary.

<http://www.ft.com/content/d3ce6d67-6275-492e-bb74-de6fadc895cb>

These overarching forces, which might include demographics or the inflation rate, are beyond the sphere of influence of the individual or group of enterprises. They are simply given as general business conditions. The priority given to the influence of markets and business conditions on the enterprise varies. Corporate management's task is to observe and constantly assess these environmental developments. The output markets, in particular, require thorough and detailed analysis so that opportunities and risks can be identified well in advance of when they arise. Therefore, analyzing the markets is a crucial prerequisite if effective strategies are to be formulated (Kozyrkov 2020, 53f.). When it comes to assessing the business environment, as referred to here, omits a controversial discussion: The traditional debate about the concept of the entrepreneur, which in simplified terms can be reduced to a functional or an institutional definition.

1.2.2 Stakeholder Concept

A large number of groups have some form of relationship with the enterprise. They all directly or indirectly influence what happens within the enterprise, particularly on the goals it pursues.

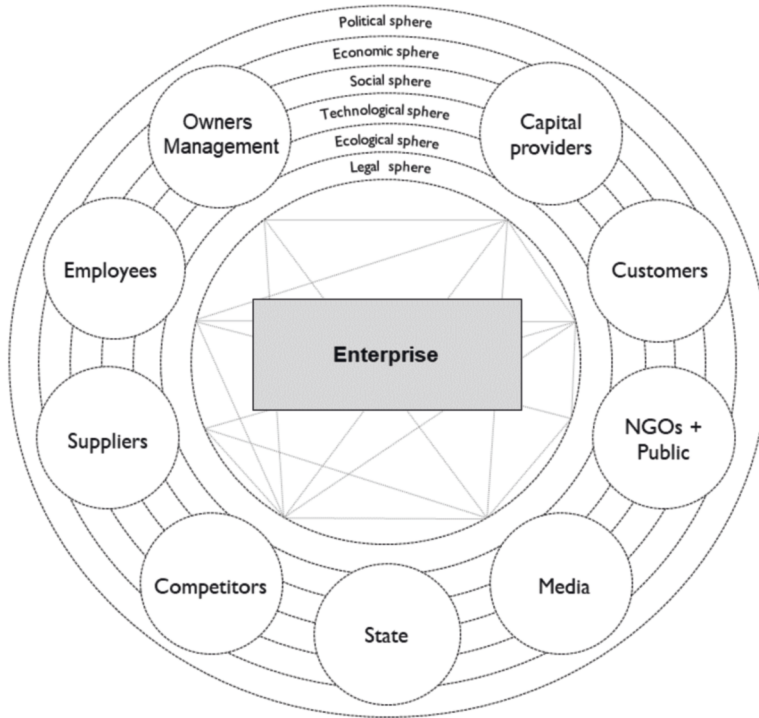


Figure 1.1 Environment Model and Stakeholder

This process can be illustrated using a model of the political system in which three different groups participate: the core group, internal stakeholder groups, and external stakeholder groups. The term “core group” describes the uppermost group, which is legally and organizationally (formally) authorized to set corporate policy goals within the enterprise. In small enterprises, the core group is often the managing owner, or in other words, the entrepreneur, while in medium-sized and large enterprises, it is made up of executives at the top level of the hierarchy and of the Board of Directors.

The stakeholders are those groups inside and outside the enterprise that contribute to developing the products and services. In exchange for their contributions, these groups demand performance, have certain expectations, and make particular claims and demands on the enterprise. For the enterprise, dealing with stakeholders represents an increasingly complex challenge because the expectations and demands are always changing. The dominance of the widely discussed and criticized shareholder value is only one indication of these dynamics (Bauhofer 2004, 32ff.). The debate on shareholder value that has been ongoing since the mid-1990s and the demand for more corporate responsibility concerning environmental and social issues are expressions of this development.

Stakeholders	Interests (objectives)
I. Internal stakeholders	
1. Owners	- Income/profit - Future security of capital - Independence/freedom of decisions - Power, influence, prestige - Development of ideas and personal self-realization, work = purpose in life
Management (Manager-entrepreneurs)	
2. Employees	- Income (employment) - Social security - Useful employment and personal self-realization - Social contacts (belonging to a group) - Status, recognition, prestige (ego satisfaction)
II. External stakeholders	
3. Financial partners	- Security of investment - Satisfactory remuneration - Asset growth
4. Suppliers and partners	- A stable market - Advantageous terms - Solvency of buyers
5. Customers	- Products and services offering good value for money - Products and services, advantageous conditions, etc.
6. Competitors	- Compliance with the principles of fairness and the rules of competition - Political cooperation between industry players
7. State	- Taxes - Job security - Social benefits - Contributions to regional and local infrastructure - Compliance with laws and standards - Participation in political decision-making
8. NGOs + public	- Contributions to cultural, scientific and academic institutions - Maintaining a viable environment - Adherence to normative standards
9. Media	- Exert a strong influence on the exchange of information - Portray and influence the public's knowledge and opinions about companies - Shape the legitimacy and reputation of companies

Table 1.1 Overview Stakeholders

1.2.3 Environmental Developments and Corporate Responsibility

The influence of markets and business conditions on the enterprise varies and can be estimated. In many cases, a specific market puts particular pressure on the enterprise. Thus, it not only confronts corporate management with the greatest problems but also shapes management thinking and the way issues are prioritized within the enterprise.

If, for example, the labor market for the required specialists and managers has dried up due to the economic cycle, the enterprise's HR recruitment policy will assume primary importance. In terms of an enterprise's longer-term success, its ability to attract the most highly qualified, high-performing, and highly motivated employees can be critical. HR issues can, therefore, be hugely important to the top echelons of management, with the HR director occupying an essential position within the management team.

Corporate management must always observe and assess these developments in the environment. The output markets require thorough and detailed analysis if emerging opportunities and risks are to be identified in good time. Analyzing the markets and likely developments is a decisive prerequisite for formulating effective strategies and corporate policy (Chapter 5 sheds light on the concepts of environment analysis).

The question of a company's relationship with, and responsibility towards, its environment emerged in the late 19th century in the United States. The concept was based on the idea that the businessman, the owner of his company, should also be concerned about the community and play the role of patron of the arts. With the emergence of the large shareholder-owned company at the beginning of the 20th century, the role of the shareholder changed, and he lost his omnipotence. Some executives, like Henry Ford, spoke out publicly about their responsibilities to society. However, it was not until after the Second World War that the first theories of Corporate Social Responsibility (CSR) emerged.

Howard B. Bowen (1953, 2013) was the first to propose a definition: "CSR refers to the obligation of businessmen to carry out policies, make decisions, and follow courses of action that are consistent with the goals and values considered desirable in our society." This approach emphasizes the importance of CSR's ethical stakes and considers that the business world is not reducible to economic calculations. Big business, which wields great power, must assume new responsibilities, considering the environment in its practices and basing its decisions on ethical principles.

During this period, CSR was presented as a set of obligations incumbent on companies and their financial and legal obligations. Companies had to recognize the existence of other players and a mission beyond the economic sphere (business ethics). These approaches were sharply criticized by advocates of the absolute primacy of shareholders over other members of the organization, notably Milton Friedman, who described the notion of Corporate Social Responsibility as "profoundly subversive" and added that the responsibility of corporate executives could only be "that of maximizing the return on their shareholders' money" (Friedman, 1962).

In the 1970s and 1980s, large corporations became the object of controversy and the target of activist initiatives led by non-governmental organizations such as WWF and Greenpeace. Faced with this new complexity, the concept of CSR evolved to understand better where these new forces were coming from and how to deal with them. The concepts

of corporate social performance and stakeholders are gradually emerging. Above all, the notion of stakeholders (Freeman, 1984) was to take root in the CSR landscape and become indispensable. In a society where threats and risks with sometimes irreversible consequences are increasing, protecting one's reputation and maintaining one's legitimacy as an active company (license to operate) is becoming crucial. To achieve this, the company must strive to understand and satisfy the expectations of its internal stakeholders, such as shareholders or employees, and external stakeholders, such as suppliers, communities, or any other stakeholder likely to affect the achievement of its objectives or interests. Materiality analysis (materiality matrix), which consists of identifying and mapping the organization's CSR challenges and cross-referencing them with the expectations of the various stakeholders, is becoming an indispensable tool for large companies subject to non-financial reporting obligations.

The stakeholder management approach provides a framework for analyzing the expectations of the company's economic and socio-political players and those of civil society. However, this approach to CSR does not call into question the business model or the value distribution. It is characterized by a proactive assumption of responsibility aimed at responding to the individual interests of its stakeholders, which it has deemed essential from the point of view of access to resources (risks) to ensure its long-term survival. In the 1990s, the slowdown in economic growth and rising unemployment created conditions for a new development model, the "sustainable" concept of sustainable development. The concept's emergence added a new dimension to CSR.

The term "sustainable development", coined by the Brundtland Report (1987), means "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". The definition is open to interpretation, and "sustainable" is controversial. Some prefer the shorter term "sustainable", which reflects the notion of the limits of environmental and human resources. There are two types of sustainability: weak and strong. Weak sustainability accepts the possibility of substitution between ecological, social, and economic capital. For example, economic compensation for river pollution (a negative externality) allows investment in substitute goods (without necessarily repairing the damage). Strong sustainability must keep the sum of these three capitals constant, and no substitution is possible. The reality of putting sustainable development into action is often somewhere between the two approaches.

Sustainable development incorporates two principles — intergenerational solidarity and precaution — and is built on economic efficiency, social well-being, and environmental preservation. These three dimensions are in constant tension, and the whole art of politics and business is to arbitrate in time and space between different possible choices to negotiate compromises between bearers of different logics that underpin and defend these three types of concern.

With the Triple Bottom Line approach (Elkington, 1998), the three pillars of sustainable development have been transposed to the corporate world. The new CSR discourse of corporate managers in the 2000s is based on the "three Ps" (People, Planet, Profit). However, the discourse is not simple and the articulation between sustainable development, the common good, and corporate practices is complex. Managerial practices that

claim to promote sustainable development often subordinate the social and environmental dimensions to economic objectives.

The need for norms and standards is increasingly felt at national and international levels, particularly in Europe. The United Nations, the European Union, and private organizations, such as the International Organization for Standardization (ISO) are investing in the debate on CSR and sustainable development to define guidelines. The ISO 26000 standard established the definition of CSR by combining the notions of responsibility and sustainable development: “The responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behavior that contributes to sustainable development, health and well-being of society ...”. (ISO 26000, 2010). This approach thus challenges the company in its mission and in the design of its organization. The standard, which is not certifiable, will serve as a guide and provide guidelines on the principles, concepts, seven core issues, and areas of action relating to organizations’ “societal” responsibility.

With globalization, value chains are becoming more complex, and companies must assume more responsibility for societal issues, such as the impact of their activities on climate, human rights, and biodiversity. CSR strategies increasingly postulate a convergence between corporate performance and the value created for stakeholders along the value chain, what Porter and Kramer (2011) call “shared value”. Governments and local authorities are demanding commitments and asking companies to further integrate CSR into their core business.

1.3 Enterprise as a Transformation Model

1.3.1 Input — Transformation — Output

Corporate management should never be viewed in isolation but always concern the object to be managed: the enterprise. Understanding the object to be managed is fundamental to understanding management problems.

The “enterprise” can be defined as an institution in which people attempt to generate a product or service through the efficient use of resources. Irrespective of whether the enterprise is a small business or a multinational corporation, it is about transforming those resources into market outputs (products or services).

The enterprise obtains funding from input markets, such as funding, human resources, information, technologies, and materials. Resources of this kind are managed and developed in the appropriate organizational units in the company (for example, financial management or HR management). The resources procured are transformed using production technology and passed back to the environment in the form of products or services.

The enterprise and its functions can be illustrated — in simplified form — as a model along the value chain.

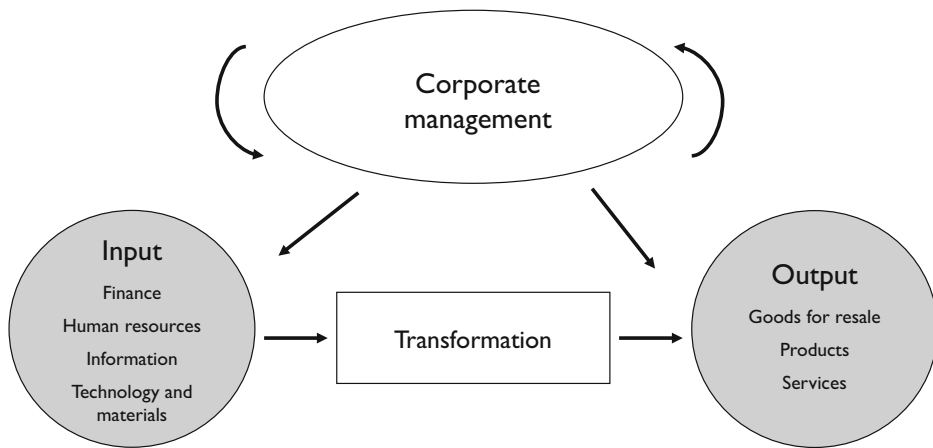


Figure 1.2 Input, Transformation, and Output

As [Figure 1.2](#) shows, a distinction can be made between

- the procurement of resources,
- the transformation of resources into market outputs,
- the sale/distribution of the market outputs and
- the functions of management (corporate leadership).

The sale/distribution function is given top priority today as it determines the processes of output generation and defines sourcing requirements. This view, which shifts the emphasis from input to output, is the result of a change that started in market economy-based organization systems as early as the end of the 1950s. This shift is reflected in the concept of marketing. Marketing is today understood to mean far more than simply the distribution area of an enterprise. It relates to a distribution or sales orientation (or customer orientation) that encompasses all areas of the company and can be described as market-oriented and, therefore, market-appropriate corporate management.

The functions of corporate management are complementary to operational functions such as distribution, production and procurement. Corporate management can be envisaged as a complex networking activity that overlays the process of generating market outputs and pervades all operational functions of the enterprise in a controlling role. A good operating profit can be achieved only if the operational and management functions interact closely and are well coordinated. The functions of planning, organization, leadership, and control consequently occur in every enterprise area, whether in distribution, production, or procurement.

1.3.2 Operational Functions

As a teaching and research field, management studies has come to be dominated by viewing operational problems in terms of the functions arising from the transformation process that is in operation. Based on this process, the following main corporate functions can be classified.

Finance

The procurement, management, and repayment of capital

Human resources

The recruitment, care, and layoff of employees

Investment

The procurement of potential factors or financial holdings

Materials management

The procurement and storage of consumable factors of production

Production

The processing of consumable factors of production

Marketing

The clarification of needs, design of relationships with customers, distribution of the manufactured products

Management

The steering of operational processes, and orientation toward shared corporate goals

Organization

The useful structuring and coordination of operational activities and the determination of lines of communication

Accounting

The recording and analysis of operational transformation processes in which market outputs are generated using production factors

Information management

Responsibility for identifying the potential of information as a resource and the possibilities of computer and communication technology and converting them into business solutions

Legal affairs

Legal compliance in all functional areas, but also awareness of the opportunities that lie in exploiting legal design opportunities in the realization of business projects (e.g. optimum design of contracts with suppliers and customers, legal conditions of business alliances)

Here, a distinction is made between functions arising directly from the transformation process of goods and capital (i.e. basic functions such as procurement, inventory management, research and development, production, marketing, finance, and investment) and those that underpin the entire transformation process support functions such as management, HR, accounting, information management and legal affairs.

1.4 Enterprise and Management

1.4.1 Concept of Management

To solve the wide range of problems that can occur during the transformation process, a management function is needed so that those problems can be addressed in a coordinated, targeted manner. The management function can be subdivided into four sub-functions: planning, control, human resources management, and organization. All four are needed to shape the many challenges in the enterprise and, therefore, the enterprise itself in a targeted manner.

Management can be described as a process in which people try to achieve specific goals. The goals give the process direction and act as a link between the individual functions. Systems, such as enterprises, are managed; people, on the other hand, are led. There-

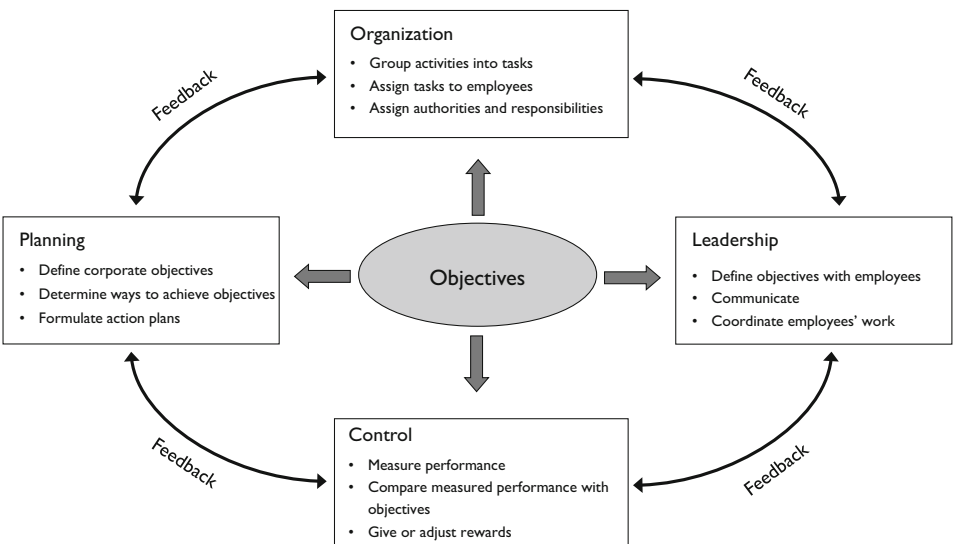


Figure 1.3 Management Functions

fore, a distinction must be made between management and employee leadership concepts. Management always relates to a sociotechnical system, such as an enterprise, and this sense can also be called corporate management. Leadership is strictly defined as relating to employees. This usage is becoming more established in German-speaking areas as well. The term (corporate) management can be interpreted functionally or institutionally.

The functional interpretation combines all those tasks and creates an awareness of what efficiently and effectively fulfills corporate goals. Efficiency is meant here as the degree of goal achievement: “doing things right” (Drucker 1974, 45). The intention is to achieve the officially stated goals at the lowest possible cost. For effectiveness, the right goals or strategic options must first be developed. The critical issue here is “doing the right things” (Drucker 1974, 45).

Management as an institution describes the positions (or departments) in a company that are entrusted with exercising the various management functions.

1.4.2 Functions of Management

The functional, process-oriented view of corporate management draws on theories developed by Henri Fayol (1916). As early as the beginning of the last century formulated, it assumes that resources can be used efficiently if activities are planned, organized, managed and controlled (Staehle 1999, 18-19).

Opinions in the literature differ widely regarding how to give management functions concrete designations and distinguish them from one another. A simple version defines each function by three characteristics: The four functions of management are not considered separately but instead arranged in the form of a cycle, with the goals holding them together and serving as links. The chart on the next page illustrates these correlations with an example from business practice.

Example

Management Functions

Planning: The director of a medium-sized company finds that customers' needs are moving further away from the product range. He is, therefore, aiming to develop a new version of the existing Alpha product range within two years.

Organization: A project team is formed to develop the new product. The members are selected, the project manager is appointed, the first dates for meetings are set, and the necessary resources are provided.

Leadership: The director takes part in the first team meeting in person. He outlines the customers' changing needs, defines the project team's goal, works with them on generating the schedule, and informs them of the consequences of the success or failure of the project.

Control: The director remains in constant contact with the project team. He assesses the situation every three months to identify divergences from the set goals and deadlines as early as possible. Based on the assessments, certain measures are taken; for example, the schedule is revised, or new activities by the project team are initiated. ◀

An analysis of the management by function was also selected in order to do justice to its holistic nature. Highly differentiated and complex models can neither replace nor support the key prerequisite for successful corporate management, i.e. an understanding of the interrelationships between all its functions. Nevertheless, a further distinction has to be made:

A logical subdivision of corporate planning and management that refines and extends the traditional structure of planning, organization, leadership, and control is the segmentation between operational and strategic planning and leadership.

Different types of reference parameters are critically important to both planning and leadership. A recent insight is that profit is an operational, short-term parameter. Nevertheless, in many small and medium-sized companies, operational data are used to reach misleading conclusions about long-term trends and developments; for example, it is often overlooked that any profit earned in the previous year is virtually irrelevant in terms of the future prospects of a company.

Controlling a company by profit only has become problematic because the indications resulting from the income statement change faster than we can adapt to them. Not only have the available timespans for adaptation to the environment shortened drastically, but one cannot reduce at random the time needed to take certain actions that will have a long-term impact on performance, such as the development of new market outputs, or the building of new capacities or employee skills.

Because of the change in conditions, what is required is a reference parameter with a lead-time over profit that is geared towards sources of long-term profitability. This parameter is what is known as the success potential. According to Gälweiler (1987, 26ff.), success potentials are defined as the structure of all business-specific prerequisites that are relevant to profit and that must be in place at the latest by the time the profits are to be realized. It is the task of strategic planning and leadership to create the best possible conditions to ensure sustainable and promising success potentials.

1.4.3 Management as an Institution

In a company, many employees perform management functions such as planning, organization, leadership, and control. Managers are basically all those of a company who carry out corporate leadership functions, from the master craftsman to the Chairman of the Board of Directors. However, the degree to which the different functions have to be carried out varies. There is a connection between the various management functions and one's position in the corporate hierarchy. In a medium-sized company, this is based on lower management, middle management and top management.

It can be said, in general, that the functions of planning and organization are assigned more importance for higher-level executives than for middle or lower executives. This is a consequence of the nature of planning and organization. Compared to the other two functions, they have a longer-term effect, with further-reaching consequences, and require wider-ranging competencies and skills. The generally accepted division into three levels of management, as referred to here, omits a controversial discussion: The traditional de-

bate about the concept of the entrepreneur, which in simplified terms can be reduced to a functional or an institutional definition.

In the institutional, classical concept of the entrepreneur, the combination of ownership and corporate leadership in one person determines who belongs to the set of entrepreneurs. If the leadership attribute alone is present, the person is described as an executive. The attribute of ownership — the power of control under private law — secures the position and, therefore, establishes the distinction between entrepreneurs and managers.

In the functional definition of an entrepreneur, however, the point of reference is what a person does in comparison to others, regardless of the position he or she occupies in the company. Schumpeter (1934), for example, describes entrepreneurs as only those people who, through their actions, establish new combinations of productive factors. The notion of the dynamic innovator envisaged by Schumpeter is found in many functional versions of the entrepreneur. The underlying idea holds that putting one's own ideas and visions into action corresponds to an ideal form of conduct that can readily be called "entrepreneurial behavior". However, while theoretically, it is possible for all persons occupying the position to behave in a way or have a personality that accords with the ideal type, it remains empirically unlikely. Entrepreneurs do not always behave entrepreneurially, and persons occupying a different position (a manager, for example) may frequently behave entrepreneurially. In other words, there is often a chasm, a big gap between the ideal and the real situation.

This gap may prompt one to question whether a similar problem arises in connection with the functional management concept. Planning, organization, leadership, and control say little about the actual behavior of managers and entrepreneurs. The core question, it is thought, is what an executive actually does in reality. The answer to this question has important consequences for the concept of training and development, the selection of executives, and the planning of measures to improve executives' work in concrete terms.

Several empirical studies have been carried out on this question. The best-known is that of Mintzberg (1973). He observed executives over an extended period of time and recorded all the activities he could perceive. A comparison with the analytically derived four management functions revealed that in business reality, more communicative, interpersonal activities were to be noted than would be assumed by the more operationally related functional descriptions of management in the literature. An important finding of the Mintzberg study is the fact that executives' activities are brief, varied, and of high-frequency. Around half of their activities took less than nine minutes, and only 10% took longer than one hour. Managers clearly prefer verbal, direct communication. It would be wrong to generalize Mintzberg's findings without further examination as they only consider what an executive actually does, regardless of whether he or she is successful.

1.4.4 Management Competence

The functions of corporate management describe tasks that should be performed by entrepreneurs and executives. However, these functions can be performed only if the appropriate skills are in place. The functions of planning, organization, leadership, and control

demand skills that can be combined under three key competencies (Katz 1980): conceptual, social, and specialist competence.

Conceptual competence refers to the ability to understand the problems and opportunities of the company as a whole and, at the same time, to be able to recognize the relationships between its various constituent parts. Developing this competence requires a fundamental understanding of the company as a complex system and the forces motivating the output generation process. This is the only way to solve individual problems for the whole company. The term “conceptual skills” is similar to others that occur frequently in literature; examples include strategic thinking, integrated (systemic) thinking, or the ability to take the helicopter view

Social competence is the ability to work effectively and efficiently with other people, both as a member and the leader of a group. This includes a fundamental willingness to collaborate and the ability to understand other people’s actions and empathize with them (with empathy as a crucial “soft skill”).

Specialist competence refers to professional knowledge and the ability to apply theoretical knowledge and methods to actual individual cases. It is the easiest competence to teach.

A connection can be established between the three competence groups and the various management levels. With the operative level added, this connection can be represented as follows: The higher you go up the hierarchy level, the more important conceptual competence becomes. An executive position demands a great deal more social skill than a job on the operative level, whereas the importance of specialist competence decreases as you go up the professional ladder.

Example

Management Competencies

Conceptual competencies: The conclusion of a cooperation agreement with a previous competitor; analysis of employee churn and/or absenteeism.

Social competencies: A managing director resolves a conflict between the production manager and the sales manager; the head of finance and accounting leads a project team about the intended purchase of a company

Specialist competencies: An accountant prepares the balance sheet; an engineer designs a machine ◀

View from the Media: Wizz Air CEO: ‘Crisis management became a constant’

Financial Times May 6, 2024, by Philip Georgiadis

As Covid plunged the airline industry into chaos in 2020, the boss of Wizz Air made an audacious move. Sensing an opportunity for the European low-cost airline, József Váradi decided to expand — taking on new aircraft, scooping up take-off and landing slots and opening new bases — just as rivals were retrenching. “I actually quite liked it,”

Váradi remembers. “Yes, of course, we were not immune from the impact and our employees were affected, our consumers were affected, our operation was affected. But the strategic opportunity, I think, enlightened all of us that, you know, this is our time. The industry is moving backward, we need to push forward.” Váradi started his career in the “extraordinary, unprecedented opportunities” of the fall of communism in his native Hungary and spent 10 years working for US consumer goods company Procter & Gamble before briefly running his country’s state airline. The entrepreneurial spirit that ultimately led him to launch Wizz in 2004, with backing from US investors, was evident from a young age. Váradi excelled at maths at school, and remembers, aged about nine, selling the answers to the day’s tests to his classmates. “I bought my first soccer ball as a result, and I was so proud of it, because I don’t think the family could afford that. But I was able to buy it.” As London-listed Wizz expanded during the pandemic, it was dubbed “the last great growth story in European aviation” by one investment bank. In 2021, with its share price rising, the company offered Váradi a £100mn bonus if he could more than double the stock price and challenge Ryanair’s supremacy in Europe. Then, the problems started. Just as the rest of the industry was taking off again, Wizz was hit with multiple headwinds that combined to thwart its growth plans. “Too many black swans,” as Váradi puts it.

The airline has been disproportionately affected by the wars in Ukraine and Israel, as these countries make up a higher portion of its flight schedules than its rivals. Váradi had four planes stuck on the ground in Ukraine as the Russian assault began (one has been returned, two cannibalized for parts and one is still sitting in Kyiv). Unlike other airlines, Wizz decided not to hedge against swings in the price of oil before Russia’s full-scale invasion sent prices soaring, meaning the airline was exposed to rocketing fuel bills. But the final, and biggest, of the “black swans” hit last year when Airbus engine supplier Pratt & Whitney began recalling planes in for inspections, amid concerns over contaminants in the powdered metal used to make their turbofan engines. Again, Wizz Air was the worst-hit airline in Europe. “Everything almost felt unprecedented, relative to what we had been going through before. Váradi, who is now a long way from securing that £100mn bonus, with Wizz’s share price languishing at about £20, compared with the £120 target, says the company’s management team has been put through a “very steep learning process”, but has become more agile in responding to shocks. “Crisis management became a constant in the company... we used to be a very focused business, very focused management team...but we became even more focused, almost laser-focused on some of the issues... We really became micro-managers,” Váradi says. Wizz’s leadership held daily calls seven days a week at the start of the Ukraine crisis. With the aircraft shortage expected to last two years, nearly as long as the pandemic disruption, Wizz has been forced to significantly slow its growth plans and rip up flight schedules, carefully choosing how to deploy its remaining aircraft to fulfill the routes that are most profitable and provide the strongest strategic advantages.

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The analysis of the competencies explained here can be added to and broadened as required. For example, an ability to reflect is referred to within conceptual competencies (Simon 2004, 22ff.). Thinking is considered an important attribute in combating strategic emergencies and short-termism in companies. This approach also emphasizes the main problem area within the profession of management: the fact that executives are, to a large extent, absorbed in operational and short-term activities.

1.5 Management Methods and Tools

In the context of the business conversion process, the tasks and problems to be resolved are many and varied. They are dealt with in detail in various sub-areas such as marketing, human resources management, finance and control, organization, production, and employee leadership.

Despite the diversity of business problems, it has been shown that their resolution always follows a similar pattern. A general decision-making process can be divided into several phases. Building on a systems-theory approach, in simplified terms, one can identify an analysis, a conceptual, and an implementation phase. These phases can be extended and subdivided as required.

Decision-making means choosing between different options to attain a goal. When faced with complex situations and paradoxical problems, leaders have to think beyond apparent constraints (Anthony 2024, 28). Traditional management functions have a close affinity with this process. Anyone who performs planning, organization, leadership, and controlling tasks must constantly decide between different options. The decision-making process can be divided into several phases.

1.5.1 Problem Definition

In the first phase of the decision-making process, the problem is defined in general terms. First, it has to be discovered, explained, and structured hierarchically. With the discovery of the problem, one must identify for the first time the discrepancy between what was planned originally and what the reality now is. Any existing opportunities and threats have also to be roughly identified. The clarification of the problem in its totality consists of an initial survey and study of additional information about a problem with the goal of obtaining a general overview. The result should be a relatively firm “view”, of the problem or at least a fairly clear picture of its key contours (but not of the solution at this point).

Once its rough outlines can be discerned, structuring a problem then makes it possible to address its various parts. In other words, complex problems have to be broken down into clearly definable sub-problems. Difficulties often manifest as general problems such as “poor working atmosphere”. The heterarchical and hierarchically superordinate problems have to be localized. When a superordinate problem is solved, several sub-problems rooted in the subordinate problem are often solved at the same time. The interdependencies and relationships to be taken into account in solving the sub-problems must be ascertained.

The sub-problems identified in the problem-recognition phase are then mapped out clearly by generating a “problem catalogue”. The steps in the decision-making process described are linked to the logical process, which has a fixed structure. They can be described as model-related sub-steps of the decision-making process. The decision-maker-related steps, in contrast, refer to the individual circumstances in the decision-making process, the decision-makers. The assessment of the problem is not model-related but decision-maker-related. It has the task of providing decision-maker-related information that can dominate the further course of the problem-solving process just as much as purely model-related considerations. The sub-processes of the problem assessment must be described. The organizational responsibilities for further treatment of the problem and the importance of the problem are reviewed, and the permissible effort for the decision-making process is determined.

Priorities and deadlines can be set on the basis of the criteria of urgency and importance and clearly shown using a matrix. The visualization of priorities illustrates that a problem must be assessed not only by its urgency, but also on the basis of the strategic importance to the company. Before the problem is processed in detail, the question should be asked as to whether emergency measures are appropriate and whether such a systematic continuation of the process is worthwhile. The process from that point on will be structured on the following questions: Who takes action? When? And how? How will coordination and information be handled? And who has the final decision?

1.5.2 Problem Processing

The term “plan” or “target” describes a desired state, preferred situation, or goal. The target has multiple meanings in the decision-making process:

- The target is the logical, indispensable prerequisite for every problem.
- The target is the benchmark for “intellectual problem-solving.”
- At a later point in time, the target is the control parameter because it serves as the benchmark for actual target achievement.

The development of the criteria used to describe a preferred situation enables all possible decisions to be assessed in terms of whether they can bring about the envisaged target situation. Examples of possible decision-making criteria can be derived from the environmental and the corporate model. The “actual” situation describes what can be observed here and now. It forms the logical counterpart to the “target”, which represents a desired state. “Actual” and “target” refer to the same factors but change their value when a problem arises.

The analysis of the situation can be understood as an analysis of factors of influence that affect target attainment in a positive or negative sense. A distinction should be made here between factors that can be controlled in the short or longer term and factors that are beyond control. Among other things, formal methods such as oral and written surveys, operational records, structure diagrams and mind maps are available to capture the factors of influence, as well as substantive methods in the form of models.

Alternatives mean possible solutions, i.e., decision variants (de Bono 1975, 28ff.). They can be prescribed, derived from experience, logically developed or generated using creativity methods, for example, brainstorming, brainwriting, or morphology (Guntern 1994, 45ff. ; Zwicky 1989, 35ff.). The alternatives are selected using the following principles: Presentation of as many alternatives as possible and the overcoming of any blindness to the company's internal failings (creativity). Determining the consequences of the alternatives relates to the question: "What happens if ...?" The results of the considerations and calculations are generally described as the outcome of the alternatives in question.

If the outcomes linked to the various alternatives are known, they are assessed. An examination must be made of whether and to what extent they correspond to the "target". If individual alternatives have been explicitly formulated, a hierarchical order should be defined, which shows whether one alternative is better, equally good, or poorer than another. One tool that is suitable for generating this order is benefit analysis, which quantifies the degree of fulfillment of the desired "target". The decision-making criteria mentioned above are needed for this assessment. A distinction has to be made between "must haves" and "nice to haves" here. If a decision variant fails to fulfill a must-have criterion, it will not be short-listed. The remaining alternatives are assessed against the nice-to-have criteria, and the alternative with the highest point score is given preference.

1.5.3 Decision-making

The alternatives are assessed mathematically. The decision means more; in other words, it means a personal commitment and acceptance of responsibility by the decision-making body. Before making a decision, the following questions should be considered:

- Has the problem been correctly defined and the decision-making criteria (correctly) formulated?
- Have a sufficient number of alternatives been developed?
- How reliable is the information on which the assessment is based?
- What possible consequences will the various alternatives have? Considering the possible consequences, is the "best" alternative commensurate with the appetite for risk of the responsible person or body?
- For how long will this decision bind us, and what consequences will it have if the decision is postponed?

The decision is the last of the three main elements of the decision-making process and leads into the next management cycle phases. Precautions for implementation and control are normally taken in the decision-making phase. The points of an action program of this kind can be structured as follows:

- The activities required for the realization of the decision should be subdivided into useful, manageable sub-steps.
- Every deadline should be precisely defined.

- Responsible managers should be appointed for the overall realization and for every sub-step.
- Definition of control points, control parameters, and valuable information for control purposes.

To ensure that the decision made is feasible as planned, this analysis should reveal possible weaknesses and either avoid disruptions from the start or help in managing with more confidence any disruptions that do arise. On the basis of the action plan, the following questions support the identification of any possible disruptions:

- What factors of influence could change and lead to disruptions?
- Can short deadlines be perceived in the action program?
- Does the action program contain any sub-steps whose completion leads to a change of responsibility?
- Are there activities in the action program that are linked with inexperience or lack of familiarity?
- Where does uncertainty exist in relation to the assumptions underlying the sub-step?
- Are sub-steps to be perceived in the action program that could be frustrated by competitors (or employees)?
- In which sub-steps is the danger of human error particularly high?

These decision-making processes are not one-offs but are constantly repeated. After the individual phases, rigorous orientation to the desired goals is applied in the form of iterative processes in order to initiate possible feedback loops. For example, decision-making processes in the strategic area of a company are strongly characterized by feedback loops because the company's starting position has to be analyzed constantly.

1.6 Development Phases of the Company

It is essential to differentiate the business decisions cited in the previous chapter by corporate functions and to design them differently depending on the company's life cycle phase. Seen from the point of view of an internal and/or external organizational dynamic, different development phases of the company are assumed, and different types of corporate development are highlighted. The company life cycle approach provides a comprehensive framework for understanding the evolution of a business. Divergent development phases can be shown in model form, e.g., Greiner's (1972), Churchill/Lewis's (1983), Mintzberg's (1983), Azides's (1988), Engelhoff's (1993) and Tushman/O'Reilly's (1997) models. This approach aims, in particular, to capture those business decisions that are unique or very rare and that will shape the company in the long term. The start-up, growth, maturity, decline, and exit phases become apparent.

The start-up phase comprises decisions that establish a framework considered valid in the long term for future decisions about production and marketing. In the foreground are decisions on the product or service range, target system, legal form, and location.

In the growth phase, the focus is on those decisions that determine the company's further development. These decisions result from the ongoing changes in the company's environment, in other words, the social, ecological, technological, and economic environmental conditions. In addition, the decisions taken in the start-up phase often have to be revised or added to. In this phase, various growth strategies are to be found in companies (Julien/Raymond 2002). Growth can be driven by internal development efforts, or attempts may be made to grow through strategic alliances (external growth strategy). In the growth phase, the question arises of new products and/or new markets. Internationalization is a special area here. In particular, if they are to continue growing, companies from countries with small domestic markets find themselves practically forced to make their mark in foreign markets. Internationalization proves to be an extremely complex problem for corporate management, with various dynamic factors of influence.

The next phase, often named change (change management), can be broadly defined. This includes situations or phases of maturity, decline, exit, and re-design. Maturity means the concentration on efficiency, customer retention, and competitive strategy and is characterized by establishing the company in the market. Companies in this phase try to maintain market shares. Decline focuses on cost control, exploring turnaround strategies, and considering exit options.

By recognizing the characteristics and challenges of each stage, companies can make informed strategic decisions, effectively manage growth, and adapt to changing market conditions. This approach also helps stakeholders anticipate needs and opportunities, ensuring the long-term sustainability and success of the business. The company life cycle is coordinated with other life-cycle models, such as the technology or product life cycle (Mosca et al. 2021). In the case of a new direction, the company aspires to new impulses through innovations or new partnerships. A new cycle with new products in new markets is initiated to spread the company's growing internal and external dynamics.

Finally, all the company's assets are sold in liquidation. The aim is to pay off all debts with the cash obtained and to pay any surplus to the company's owners. There are many reasons why a company may be wound up. The most common are failure to achieve business objectives or insufficient return on investment. Companies are also liquidated because of previous losses if insolvency proceedings are initiated or when no improvement in the economic situation can be expected in the long term.

In a redesign, an attempt is made to give the company fresh stimulus by utilizing innovations and new partnerships. A new cycle with new products in new markets is initiated to counter the growing internal and external dynamic. In liquidation, a company's entire assets are finally sold. The goal is to redeem all debt from the cash received and to pay out any surplus earned to the company's owners. A company may be liquidated for a variety of reasons. Most frequently, it is because the business purpose has been achieved or there is insufficient return on the capital employed. Companies are also liquidated because of past losses or if insolvency proceedings are initiated if no improvement in the business situation is to be expected.

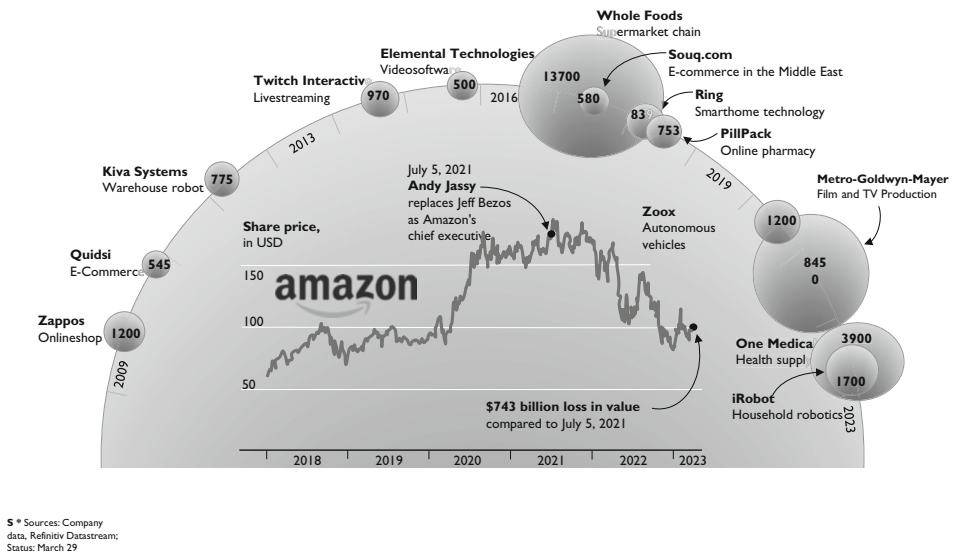


Figure 1.4 Life cycle of the company
Source: Company data, Refinitiv Datastream; Status: March 29, 2024

1.7 Explanatory Approaches to Management Studies

1.7.1 Scientific Management

Frederick Winslow Taylor’s two main works (1911, 1913, 1919) are normally considered the dawn of academic management research. Taylor’s “Principles of Scientific Management” (1913) provided the title for the first explanatory approach to management studies. The starting point is his observation that industrial production processes were inadequately structured and workers poorly trained.

The “Scientific Management” way of thinking is characterized by the most rational use of manpower and machinery in the production process, by a maximum output orientated towards the best worker, by corresponding methods of employee selection and remuneration, and by the systematic separation of operative and planning activities (functional foremanship). Scientific Management is, therefore, more than just a systematic collection of management principles; it is the expression of a mindset aimed at enhancing output and efficiency across the board. Specifically, Taylor distinguishes the following principles:

Systematic time studies as a prerequisite for differentiating piece rates

- Differentiation of piece rates
- Separation of planning and operation
- Scientific working method

- Control by management
- Functional organization

F.B. Gilbreth, Taylor's most prominent pupil, logically extended these time studies to include motion studies of the work processes based on the conviction that every motion that did not directly serve the production process was a wasted effort. Human labor was to be freed of everything irrational and random and of unnecessary qualifications through this organization.

While Taylor was still concerned primarily with the rationalization of manual labor, Henry Ford (1923) concentrated on the rationalization of the industrial manufacturing process in mass production. He followed several principles:

- Product standardization
- High level of mechanization through continuous flow production
- Aptitude tests to select the best workers
- High wages (from \$2.30 to \$5 per day) and low prices to create effective demand for his products
- Prohibition of trade unions in his factory

The use of continuous flow production not only led to a considerable increase in productivity and reduced the high cost of employee control seen under Taylor's system. The impersonal control tool of the assembly line now took on the work of the Taylorist masters.

1.7.2 Administrative Approach

While the representatives of Scientific Management were concerned mainly with labor problems on the lowest management level, the administrative approach is aimed more at the analysis of the company as a whole. Henri Fayol (1916) says in his main work, "Administration industrielle et générale", that he can identify management as a group of universally proven functions (planning, organization, leadership, coordination, control) in all organizations. By using the term "générale", he expresses that management problems are important not only in industrial companies but in organizations of any kind.

In contrast to Taylor's structuring of the organization along functional lines, Fayol demands a system based on a clear command line. Like Taylor, he worked as an engineer, but as the managing director of a French mining company, he was more interested in the organization of leadership at the top management levels. The principle of the unity of command goes back to him: a subordinate may receive orders from one superior only and not, as in Taylorism, from several. The lines of command then run through the hierarchical levels from top to bottom or (top-down) (the reverse being upwards referral, i.e., bottom-up).

In addition to the principle of unity of command, Fayol formulated 13 more management principles, which he wanted to be understood as flexible guidelines for managing companies of all kinds (such as unity of authority and responsibility and hierarchical organization). Fayol's principles have been continuously added to over the years without any qualification in terms of the area of application.

1.7.3 Humanistic Approach

Characterized by a purely functional view of corporate management, the traditional approaches of Taylor and Fayol neglect the human element in companies; companies are after all, comprised of people. Their approaches study the influence of planning, organization, and control on the effectiveness of the company, particularly in terms of earning profits, but they ignore other important factors at play. It was, therefore, only so long before pressure from the trade unions and from what became known as the Hawthorne experiments helped the humanistic view to achieve its breakthrough. The humanistic perspective sees the employee not as an isolated production factor but as a social being whose actions are determined in part by influences from his social environment.

The starting point of the humanistic approach (or the human relations movement) was the ergonomic experiments conducted in the Hawthorne factories of the Western Electric Company (1927-32) under the direction of Harvard professors E. Mayo and F. Roethlisberger. The research, originally positioned entirely in the tradition of scientific management, presented a controlled variation of objective physical workplace conditions. The structure of the experiment showed that efficient organization and leadership cannot be achieved without considering the social dimension.

Their research studied the influence of working conditions (breaks, workspace, light and air, colors, etc.) on the performance of female workers. The decisive findings came in an experiment in which two groups of female workers were observed over a period of six months. While working conditions remained constant for the first group, they were partially altered for the second. Performance was found to have risen continually over the course of the experiment in both groups. Even the withdrawal of “real” improvements led to higher performance.

This surprising result directed management researchers’ attention to the phenomenon of informal groups and their impact on corporate organizations. Work performance is not just a function of “objective” physical working conditions but also depends on how employees are treated and on how they perceive their work, colleagues, and managers. They find a sense of identity and satisfaction in the group. The manager does not have to have specialist competence as much as social competence (human relations techniques).

The results of the Hawthorne experiments shifted research away from the one-dimensional orientation of scientific management and triggered the development of modern explanatory approaches that attempt to integrate social, technological, and economic dimensions. However, we should not overlook the fact that to this day, “scientific management” has a strong influence on large areas of American management practice; Taylor’s presence is still felt.

Even current management concepts in American companies are frequently animated by a technocratic spirit that is closely related to the specific structure of American industry: a mass market needs to be served with standardized mass products that are produced in transformation processes with a high degree of division of work.

But the era of mass production based on the division of work principle is now drawing to a close. It has certainly brought enormous prosperity to the USA and other sectors around the globe, but with increasing demand saturation, pressure has arisen to move away from purely

price-based thinking in society. In the foreground, an awareness of quality has manifested itself in various market segments and is expressed in highly differentiated customer wishes. This trend demands a fundamental reorientation of the national industrial culture.

1.7.4 Strategic Success Factors — the 7-S-Concept

The 7-S-Concept, developed by management consultancy McKinsey, is an analytical tool of more recent origin (Peters/Waterman, 1984). It came about as a response to the unusual success of Japanese corporate groups in the world market and was intended to contribute to managing the crisis in North American management. The model contains seven factors that are interpreted as conditions for business success.

The shared values, the superordinate goals, are in the center, the core of a unique corporate culture. The other six success factors can be categorized as three “soft Ss” (Skills, Staff, Style) and three “hard Ss” (Strategy, Structure, Systems). The soft success factors are significantly different from the hard ones. They are almost impossible to quantify, not technologically feasible, and cannot be fully explained rationally.

According to Peters/Waterman (1984), what makes a company great is not rational strategies, formal organizational structures, or sophisticated planning and control systems. The decisive success factors are seen as those that are harder to explain — the “soft” factors and corporate culture.

This assumption was tested using a random sample of successful large companies and concretized in eight attributes (“eight basics”). At first sight, these attributes appear unspectacular. However, Peters and Waterman (1984, 39ff.) point out that the particularly striking feature of excellent (i.e., successful) companies is the unusual rigor with which the individual principles are implemented.

1.7.4.1 Attributes of excellent companies

A bias for action

Tasks are addressed quickly and not analyzed down to the last detail. Experiments are conducted continuously, even at the risk of making mistakes (“do it, try it, fix it”).

Close to the customer

An absolute obsession with delivering quality and service to the customer; contact the customer to identify wishes and translate them into new products and services.

Autonomy and entrepreneurship

Independent of company size, small operating units ensure manageability, entrepreneurial behavior, a great deal of autonomy, and lower-level competition.

Productivity through people

Trust in employees’ abilities and their involvement in improving work processes and products strengthen their commitment and make ordinary people into good ones.

Hands-on, value-driven

Fundamental values in a company, such as quality, reliability, or customer care, completely penetrate all activities and determine the corporate strategy.

Stick to the knitting (core business)

Business activities and company acquisitions occur only where the company's own know-how can be used productively.

Simple form, lean staff

Perfection of systems and organizational structures is avoided ("back to basics"). Staff departments are kept lean; reporting is restricted to essential, broad, informal forms of communication.

Simultaneous loose-tight properties

A balanced mixture of central and dispersed structures; a great deal of scope for initiative and individual solutions, provided they produce results within the framework of clearly defined corporate objectives and strictly observed corporate values.

The 7-S-Concept is an ideal tool for obtaining a holistic company picture. For example, the concept can be used after mergers or to represent complex change processes. The J.P. Morgan example documents the bank's entry into investment banking in the early 1990s based on the seven factors. The 7-S-Concept illustrates the bank's comprehensive transformation, which had long been hindered by the American system of separating banking services.

The eight basics that Peters and Waterman (1984) attribute to excellent companies are of primary value as a starting point for ideas. They are a valuable tool for identifying weaknesses in companies and developing leverage points for new actions. Nevertheless, it would be wrong to see the eight basics as generally applicable rules for success and to generalize from them without further examination. Such a generalization — which has been applied on occasion — is in conflict with the originally intended purpose of the 7-S-Concept.

At the heart of the 7-S-Concept when it was first devised was the idea that there is no single generally valid optimum solution for all companies. It mainly points out, first, the need, to use all the "Ss" for the optimum achievement of corporate objectives and, second, that they have to be compatible with each other. Every company has to find its own way to excel in every "S" and to achieve a "fit". The job here is not to perform cosmetic changes or to imitate others, but to help develop the company's own organization. In addition, every company, like every individual, has to find its own solution.

1.7.5 Magic Trilogy as Structural Dimension

Strategy, structure, and culture must never be viewed in isolation; rather, they form a "magic trilogy" that can only be used holistically. Establishing the optimum fit of the three essential components must be seen as a critical task of corporate management. There are

similarities between the “magic trilogy” and the 7-S-Concept (in its original version), but there are differences, too, and these should not be ignored. One particularly striking feature is that the number of factors for success varies considerably. Apart from the concept of strategy, an element of both models, the “magic trilogy” condenses some elements of the 7-S-Concept. The overarching term culture unites the “soft Ss” and the shared values, while the word structure combines the notions of “formal organization structure” and “planning and control systems”. The culture and structure of a company are, in fact, widely divergent phenomena.

Example**Amazon, Google, IKEA, LinkedIn, Tesla****Amazon**

Vision: To be Earth’s most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online.

Google

Mission: to organize the world’s information to make it universally accessible and useful.

Vision: To provide access to the world’s information in one click.

IKEA

Mission: To offer a wide range of home furnishing items of good design and function, excellent quality and durability, at prices so low that the majority of people can afford to buy them.

Vision: To create a better everyday life for the many people.

LinkedIn

Mission: Connect the world’s professionals to make them more productive and successful.

Vision: Create economic opportunity for every member of the global workforce.

Tesla

Mission: Accelerate the world’s transition to sustainable energy.

Vision: Create the most compelling car company of the 21st century by driving the world’s transition to electric vehicles. ◀

Corporate culture can be defined as the whole of the traditional norms and standards that shape employee behavior at all levels and thereby give the company its own unique identity. It acts like an implicit behavioral control, so to speak, defining the parameters of expected behavior. Culture is linked with a company’s structure, hierarchy, job descriptions, and planning system.

An analogy from French/Bell (1990) illustrates the importance of cultural phenomena. The formal rules are only the tip of the “organizational iceberg.” Something like 90 per-

cent is underwater and, therefore, remains invisible. At the same time, the tip will only float as long as it is supported by the invisible part — the culture.

The interactions between strategy, structure, and culture make up the “strategic fit.” Not only is a particular combination of the basic factors promising, but they are totally different, provided they show internal consistency. For example, an innovation-oriented strategy will be condemned to failure if the structural prerequisites are missing and the culture hampers innovation in the company.

Many presumptions can be made about the relationships among the three basic components. Strategy is the starting point and culture must fit the strategic direction of thrust, not the other way around. In the event of a fundamental change of strategy, a strong culture can be a hindrance, or even dangerous, because it hampers the change of direction.

The relationship between structure and strategy is determined similarly. It can be described by a memorable formula originally created by Chandler (1962, 1972): “structure follows strategy.” In other words, the strategy has to be developed first, and the right structures have to be designed in the second step.

Example

UBS and the Credit Suisse integration

After taking over Credit Suisse in August 2023, UBS plans to lay off thousands of employees, even if this means losing employees with excellent skills that could prove essential to its future. These people are annoyed by the constant criticism and power struggles.

At the end of October 2023, the departure of several appointed senior executives to private banks — such as Lombard Odier — or cantonal banks appeared on the front pages of several newspapers. In the corporate client sector, the big new bank is mainly losing senior executives, who are taking their skills and networks with them. These departures are, therefore, highly damaging, as Credit Suisse enjoyed a good reputation in this sector, which was highly appreciated by entrepreneurs. The “new UBS” now has to convince them of its future strategy. ◀

The interdependencies among strategy, structure, and culture constitute a strategic fit. Success depends not on a simple combination of basic factors but on total coherence (= compatibility). For example, a strategy focused on innovation will fail if the structural conditions are lacking or if the corporate culture hinders innovation.

These and other assumptions have not gone unchallenged, however. To give just one contrary position: the demand for a fit of strategy and culture is thought to overlook the fact that a strategy-conforming culture cannot be “managed” in the traditional sense.⁷ The influence that management has on the culture in a reasonably large company is challenging to assess because cultural phenomena grow over the long term, in other words, across generations.

1.8 Corporate Model

This chapter closes with the presentation of a corporate model that defines several core elements and on which the rest of the book is based. The model is based on a systemic approach that emphasizes the company's integration with its environments. It builds on the systemic approach that has had a significant impact on American management literature and embodies a stronger management orientation of management studies. By viewing the company as a multidimensional entity, this model moves away from the view of traditional management studies, which confines the problem areas to their purely economic dimension; instead, problems and their solutions are always considered in combination with corporate management problems.

Of particular interest from the point of view of a system-oriented management theory are those dimensions that are key attributes of corporate management. The model presented in this textbook therefore, comprises four levels:

- an environment level with its interdependencies encompassing the company;
- the level of the magic trilogy with strategy, structure, and culture;
- the level of the development phases of a company: start-up, growth and change;
- the level of the management method (analysis, concept, implementation), which includes management tools and methodological approaches.

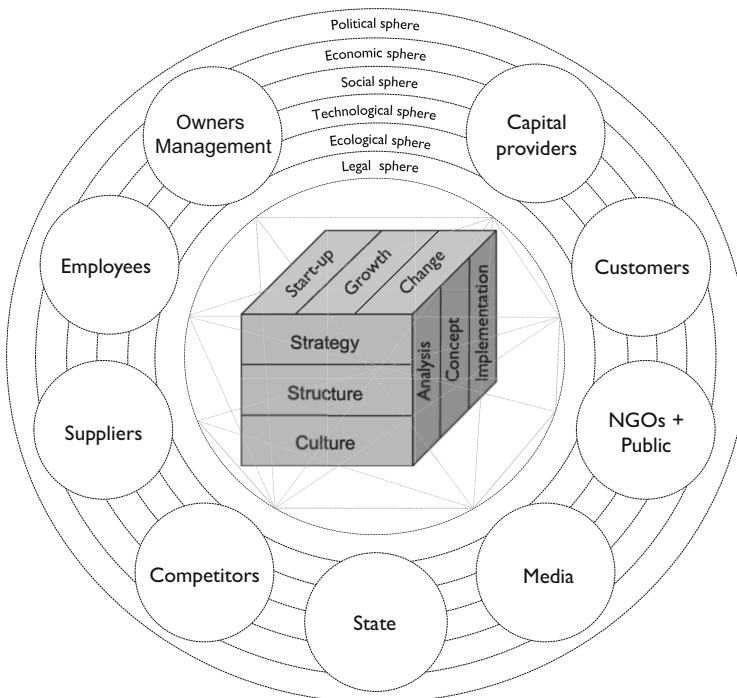


Figure 1.5 Corporate Model

The model considers the company as a targeted social system possessing a very large number of different aspects and dimensions; managing a company means “designing, directing and developing an entire complex social system” (Ulrich 1970, 19).

One of the main founders of a system-oriented management theory, Ulrich (1970, 2001), defines the company as a social, productive, open, dynamic, complex, autonomous, and market-oriented system.

This description expresses the fact that a company:

- is a social system in which people work as individuals or in groups that have a significant influence on the behavior of the company;
- creates products by combining production factors;
- constantly carries out exchange processes with its environment as an open system and is linked to its environment by a wide variety of relationships;
- has to change constantly to adjust to or influence new developments (dynamic system);
- consists of a large number of individual elements whose combination into a single whole result in a highly complex system of structures and processes;
- can autonomously decide on its goals, even if — particularly in a social market economy — certain state restrictions (laws) must be taken into account as framework conditions;
- ultimately has to focus all its efforts on the market’s needs (market-oriented system).

Chapter Appendix

Key Takeaways

- Several models and approaches have marked the history of business management.
- A company can be understood as a system, i.e., a complex entity with interrelationships. Like systems, companies are managed and employees are directed.
- Companies follow a life cycle. In simplified terms, three phases can be identified: start-up, growth, and change.
- Within a company, the higher a person’s hierarchical level, the more social and conceptual skills they possess.
- Contact with stakeholders represents an increasingly complex challenge for the company. On the one hand, stockholders’ requirements are constantly changing. On the other hand, in order to survive, the company must not stop at the interests of shareholders alone but must adapt to the interests of other pressure groups.
- The “magic trilogy” is a global model of the company. It is based on the systems approach and highlights the company as a multidimensional entity with all its interactions. The main task of corporate management is to maintain coherence among strategy, structure, and corporate culture.

End of chapter questions

1. What do you understand by NGOs?
2. From the company's point of view, where does the danger lie in the dominance of shareholder value?
3. Explain the term "hybrid stakeholder".
4. What phases does the life cycle of a company consist of?
5. Peters/Waterman (1984) defines eight attributes that are characteristic of excellent companies. Try to assign the statements below to Peters' and Waterman's attributes.
 - "Stick to the knitting"
 - "Employees are our most important capital"
 - "We mean what we say — and we do it, too"
 - "The proof of the pudding is in the eating"
 - "Down with bureaucracy"
 - "We want everyone to be an entrepreneur"
 - "The customer is king"
 - "Tough in business, conciliatory in manner"
6. "Compliance: a lot of companies focus only on observing laws. This approach is inadequate. Instead, they should take a good look at the ethical questions behind the rules" (Roth 2005, 132).
7. Discuss this statement.

"Customers should not be considered stakeholders because they are not interested in the company. They have no loyalty and primarily think from the point of view of value" (Malik 2004, 53).

What do you think of this viewpoint?

View from the Media and Case Study 1: Exxon's turnaround on clean energy

Financial Times, Tuesday, May 8, 2023, by Justin Jacobs,

ExxonMobil's top executives went into the company's yearly shareholder's meeting in May 2021 confident it was set to win a proxy fight with activist investors over its approach to climate change. Then the votes started rolling in and it soon became clear that Exxon had a full-blown revolt on its hands. Engine No 1's campaign tapped into a deep well of discontent among larger investors at Exxon — the corporate embodiment of the age of oil, that long denied and cast doubt on man-made climate change, and strode the global stage with more wealth and power than many nations.

The company was stuck in the past, the campaign argued, failing to position itself for a coming shift to clean energy and addicted to big spending on oil and gas projects that no longer made financial sense. "This was a complete failure in running the business," says Chris James, founder of Engine No 1. But two years on from the landmark shareholder

uprising, James says he sees signs that the proxy fight set Exxon on a new trajectory, pointing to a number of changes he says were pushed by the campaign. Exxon has promised to inject billions of dollars into a new business line focused on what it calls low-carbon technologies such as carbon capture and hydrogen. The company has also brought outsiders into key senior roles, including leading the energy transition effort, which many see as a big cultural change at a company that historically promoted those steeped in the Exxon worldview into its upper ranks. “Setting up a low-carbon solutions business, I would chalk that up as a definitive win for what we were talking about,” says James, whose campaign won three seats on Exxon’s board. “This was a company that was kicking and screaming going into the energy transition and then started talking about it after the campaign.” But has Exxon changed? The company says it is pouring cash into lower-emission technologies to aid the climate fight. But critics note it is only about 10 per cent of overall spending over five years, and that the company remains fundamentally wedded to a future of ever more demand for fossil fuels — a future all serious climate models say would unleash huge environmental damage. Some say this shift is less about a newfound belief in the need to transition to cleaner energy and more about taking advantage of the Biden administration’s flagship climate law, the Inflation Reduction Act, which includes generous subsidies for a range of green technologies. Activists in New York protest against fossil fuels.

Many argue that Exxon’s focus on hydrogen and carbon capture is an attempt to extend the fossil fuel era. The question of Exxon’s commitment to change has taken on new dimensions in the energy crisis that followed Vladimir Putin’s invasion of Ukraine. This crystallized competing visions of how the world will power itself in the future: the oil industry’s view of continued reliance on its core products; or an alternative one that breaks free of the fossil fuels that have given corporate titans such as Exxon — and autocrats like Putin — incredible riches and power. “This is not the Exxon of even five years ago, they’ve read the tea leaves and they understand they need to project a different image,” says Andrew Logan, a senior director at Ceres, which co-ordinates investor action on climate change and backed the Engine No 1 campaign. “What is still unclear is whether this is just an exercise in messaging and PR or whether there’s real commitment to a new strategy.” A new narrative Last month, Exxon’s chief executive, Darren Woods, fleshed out the company’s new energy transition strategy in the most detail yet, telling investors that efforts to cut emissions were creating markets worth trillions of dollars that the firm wanted to tap into. “The world’s climate challenge is immense and the opportunity it creates is equally immense,” says Woods. Dan Ammann, whom Exxon hired from General Motors’ self-driving car unit to run its low carbon efforts, says that the business could one day grow to be “larger than ExxonMobil’s base business is today as the world approaches net zero”. The sudden bullishness on technologies that could profit from the energy transition marks a profound shift in messaging from Exxon. For decades, the company downplayed the threat of clean energy to its business, lobbied against government efforts to reduce emissions and actively set out to cast doubt on the science of climate change, even as its own scientists were coming to similar conclusions as the broader scientific community, internal documents released in recent years show. Woods has denied that Exxon spread disinformation about the climate and said in 2021 that the company has “long acknowledged the reality and risks of climate change.” Unlike European oil major rivals such as BP, Shell and TotalEnergies, Exxon is not ploughing cash

into big wind and solar projects or trying to crack into the battery business. Woods in 2020 dismissed those companies' climate targets as a "beauty competition". In Exxon's view the energy transition will involve a lot of electrification for things such as power generation and automobiles. But it argues there will be large swaths of the economy like heavy industry and long-range transportation that will be difficult and costly to electrify and will need to be decarbonised by trapping emissions or deploying hydrogen made from gas or swapping today's fossil fuels for biofuels. Exxon is betting on those technologies — biofuels, carbon capture and storage, and low-emission hydrogen — which it says are more closely aligned with its expertise and deep experience in the oil and gas business. "The world needs to establish a new industry, a carbon-reduction industry with new value chains and products, and we need it sooner rather than later. These needs play to our strengths," says Woods. Yet the strategy has many critics. Although the International Energy Agency and the UN say these technologies will play a key role in helping the world get to net zero, carbon capture and storage has never been successfully built at a significant scale and the projects that have been set up have often trapped far fewer emissions than advertised. While hydrogen is a common input for heavy industry, hardly any of it is produced cleanly today, and biofuels remains a largely niche product. ExxonMobil's decades-long initiative to make biofuels from algae was dropped this year, suggesting the company's publicised innovations do not always live up to the hype © Noriyuki Aida/Bloomberg Climate activists and analysts say Exxon is focused on hydrogen and carbon capture and storage because it sees them as a way to extend the fossil fuel era and fend off electrification efforts in markets key to future oil and gas demand. Prior, extravagantly publicised investments in energy innovations have not lived up to Exxon's hype. Logan of Ceres points to the company's decade-plus long push to make biofuels from algae, which the company for years publicly touted as its flagship climate initiative, including in multiple high-profile Super Bowl advertisements that tried to paint Exxon as low-carbon leader. But the technology ultimately never went anywhere and Exxon quietly dropped its algae programme this year. "The onus is on Exxon to prove that it can actually innovate in an economically sustainable way in those areas, and that this isn't just marketing, which seems like [it] has been the case in the past," says Logan. "It's a huge cloud that hangs over the plans around hydrogen and carbon capture and for biofuels." Exxon's Ammann acknowledges that the talk around carbon capture and hydrogen has outpaced the reality. "One of the things that's been interesting to me coming into this space, is there have been lots of press releases and lots of talk, frankly, but there have been very few real definitive project agreements," he says. But he points to a string of deals Exxon has announced in recent months for new hydrogen and carbon capture projects as evidence the business is "moving off PowerPoint and into the real world". The company has committed to building a new hydrogen production facility in a major refining and petrochemical hub outside Houston, Texas. It will be a so-called "blue" hydrogen facility, a novel venture in which it uses carbon-intensive natural gas to produce the hydrogen but captures and stores the plant's CO₂ emissions. Last month, it signed a deal with UK-based chemicals company Linde, in which Exxon says it will transport 2.2mn tonnes a year of CO₂ from a new Linde hydrogen facility on the US Gulf Coast and permanently store it underground. Those initial projects could start generating cash by 2025, Amman says.

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Case Study 2: Tamedia's acquisition of Doodle, or how an invitation can become an opportunity

It all began in 2003, when Michael (nicknamed Mike) Näf, a software engineer in charge of security for a stock market information service, wanted to organize a get-together with his friends. He realizes that, despite the increasing use of new tools, such as cell phones and the Internet, making an appointment hasn't really improved. Even if long-distance interpersonal communication has eased, he notes the lack of a tool to set the right date and time for a meeting involving several people. In a hurry, he programmed a very simple software program to propose several dates to be voted on by his guests to define the most convenient date for everyone. Mike puts the software online and sends the link to his colleagues. At first, the advantage of this software is purely personal. To access the appointment data, friends only need to know the sender's IP address (i.e., the permanent or temporary identification number assigned when the sender connects to the computer network).

At the time, he had no idea that his invention would have commercial success, requiring protection or a patent, but the software became increasingly popular, and Mike continued to develop it. By early 2007, the application had already registered between 100,000 and 200,000 "unique users" per month, who were supposedly repeat users and clearly identifiable. Additional resources are therefore needed to meet the growing user demand, including creating a more professional website. Mike Näf, who had, in the meantime, taken up a lectureship at the Swiss Federal Institute of Technology Zurich (ETHZ), became convinced of the commercial success of his application. At ETH Zurich, where he met young doctoral student Paul Sevinç, he and Sevinç decided to found a limited liability company (GmbH) to seek investors. Their strategy was simple: they wanted to keep the application as easy to use as possible. "It's better to be able to satisfy 98% of users with simple software than to satisfy the 2% of users who want their specialized functions and, simultaneously, upset the other 98% with an over-complicated input model," says Mike Näf.

The application resembles a matrix. Vertically, the initiator of the appointment or the user provides several dates with several times to choose from. These basic choices are then summarized via a hypertext link. The initiator can then invite participants via this hyperlink. Horizontally, participants register by indicating their preferences in relation to the basic choices for the appointment: green means available, and red means unavailable.

An easy-to-use software, but always close to the user. In fact, Mike and Paul have always talked a lot about the improvement needs communicated by users, such as introducing a scale from 1 to 10 to indicate the degree of convenience of an appointment. In response to demand, they added an additional color — yellow — to indicate that the appointment is possible but that another date would be preferable. Even though the improvements didn't materialize very often, they were always discussed and thought about at length by the two founders.

In 2009, just two years after the company was founded, Doodle already had three million users. The business model is simple: users of the basic service pay nothing, but their input mask is surrounded by several advertisements. The ad's message is often tailored to the keywords in the title of the invitation. For example, if a user wants to organize a barbecue, he will intuitively enter the word "barbecue" in the title of his invitation. The invitation mask is then automatically surrounded by an advertisement for a meat or potato

chip producer. Doodle also offers paying services, including a premium version with numerous additional functions. There's also a business version for organizing appointments within large companies.

In May 2011, when the basic Doodle service was available in 29 different languages and counted over eight million users a year, the founders sold 49% of their shares to the Tamedia publishing house. Tamedia has been established on the Swiss market for over 120 years and is one of the two largest media houses in Switzerland. The Tamedia Group publishes over fifty newspapers and specialist magazines. The group also operates around a dozen Internet services and several radio stations. It currently employs over 3,700 people. Since 2000, the company has also been listed on the stock exchange. Affected by the declining markets for old media, the group is trying to broaden its business portfolio by acquiring new media start-ups. Details of the deal between Tamedia and Doodle have hardly been made public. The two companies have only communicated that the founders, Mike Näf and Paul Sevinç, will initially remain on Doodle's management board and board of directors. In 2016, the remaining 51% will also be sold to Tamedia. However, in 2014, the two founders decided to leave their company definitely before that time. They made way for Michael Brecht, an experienced IT and web specialist. As with the merger, the management handover is gradual, not overnight. In just seven years, Doodle has gone from a small Swiss start-up to an international service run by a major media group.

Exercises

1. Identify Tamedia's and Doodle's key stakeholders. For each of these stakeholders, describe their influence on the strategic decisions of these two companies.
2. Analyze the different "conditions for success" for both companies according to McKinsey's 7-S model.
3. According to your analysis of the 7-S model and the stakeholder analysis, what problems might have arisen during Tamedia's acquisition of Doodle?

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System-Based Approach

2

The definition of the enterprise as a productive social system makes it clear that the enterprise as a whole should be viewed as a system and is made up of a number of subsystems. This description explains the company and its actions using system-based concepts. Several questions arise in relation to system-based management theory: how did system theory arise? What is generally understood by a system? What form do the effects of system theory take on management studies? System theory is a relatively young science, still in the process of development. It is significantly influenced by the findings of philosophers and academics from various disciplines (e.g., biologists, mathematicians, physicists, engineers, sociologists, psychologists). The company is seen as a system with a lot of interactions and unmanageable variables and not as a machine.

View from the Media: Elliott cannot solve Southwest's Boeing problem

Activist investor wants CEO replaced, but turnaround remains at mercy of plane maker

Financial Times, June 11, 2024, by Pan Kwan Yuk

Elliott Investment Management has chosen a good time to pick a fight with Southwest Airlines. Shares in America's largest domestic carrier by passenger volume have been grounded by softening US travel demand and turmoil at aircraft supplier Boeing. Coming into this week, the stock had lost more than a 10th of its value over the past 12 months and more than 50 per cent over the past three years to trade near its 2020 lows. By contrast, Delta Air Lines, which has a more international focus, is up 25 per cent over the past year and has long bounced back from the pandemic sell-off. Enter Elliott. The activist investor this week revealed that it had amassed a \$1.9bn stake in Southwest. It is calling for chief executive Bob Jordan to be replaced and the board of directors to be overhauled. It also wants a comprehensive review of the business. But there are limits to its campaign. Even this veteran activist cannot solve Southwest's Boeing problem. Southwest could do with some shaking up. Founded in Dallas by the late Herb Kelleher in 1967, the budget airline grew and

found success by making flying more accessible to the masses. But more recently it has struggled with rising costs and stalled revenue growth. Despite pulling in record revenues during the first quarter, Southwest's net loss widened to \$231mn. Consensus forecasts put net income for this year at about a fifth of the level in 2017.

Southwest has already announced plans to slash jobs and close routes in a bid to cut costs. Elliott, which thinks Southwest shares could be worth \$49 in 12 months, up 75 per cent, believes it can go further. It reckons the discount airline should follow rivals and start charging for assigned seating and other premium options. It also needs to overhaul an outdated IT system that led to an operational meltdown in 2022 and left more than 2mn passengers stranded. But this will take time and money. Then there is Boeing. Southwest only flies one type of plane, the Boeing 737. The advantage to this is it helps keep maintenance costs low. But Southwest's reliance on Boeing means it has been forced to reduce capacity and cut revenue growth guidance due to insufficient plane deliveries.

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2.1 System Characteristics

2.1.1 Definition

The pioneers of general system theory include, first of all, the founders of an overarching scientific program, such as the biologist Bertalanffy (1951), K.E. Boulding (1956), and R.W. Gerard (1964). They advocated the thesis that principles exist that can be applied to systems (unities). The nature of the elements, what the relationships between the elements are like, and what the forces are like are irrelevant here. The term "general systems" expresses the fact that general system theory aims to combine individual disciplines.

A second group consists of developers of information theory (Shannon/Weaver 1949), operations research (Beer 1966; Wagner 1969), and above all, pioneers of cybernetics, such as Wiener (1952, 1954, Beer (1962), Ashby (1970), and von Foerster (1974).

The system concepts are regarded as the framework of cybernetics and the result of an interdisciplinary approach and the comparison of processes. In addition, psychologists (Allport 1955) and sociologists (Parsons/Bales/Shils 1953; Luhmann 1964, 1984) as well as more and more management scientists (Simon 1960; Johnson/Kast/Rosenzweig 1963; Ulrich 1970; Malik 1996, 2013) took an interest in the findings of system theory. Watzlawick's theory of human communication (2000), which is based on fundamental system theory insights, became very popular.

As the normal usage of the word shows, the concept of a system is strongly influenced by organizational elements. Everyone has some notion of a system. A system is often seen as a unit, structure, and organizational pattern consisting of linked parts. A system is also understood as a complicated construct that somehow or other works in an orderly fashion.

Within the meaning of general system theory, a system can be understood as an organized unity of elements among which certain relationships exist or can be established (Flechtner 1966, 353). According to Luhmann (1984, 46ff.), a system is an organized complexity consisting of operations.

The definition given illustrates the two main characteristics of a system: on the one hand, its unity, but with the whole — according to the central theorem — being more than the sum of its parts. On the other hand, the elements are constituent parts of a system. In system theory, parts of a system can, in turn, themselves be seen as a system. These relationships are explained in the systemic context by the titles super-system, system, and subsystem. Parts of the system are thus defined as subsystems, while the system, in turn, may be part of a super-system (Figure 2.1).

The terms subsystem, system, and super-system are used when the individual levels can be delimited due to intensive interactions. The extent of the interaction consequently determines the delimitation of the systems (see System of System). The fact that a relationship exists between the parts of a system is particularly decisive for cyberneticists. Relationships between the elements are connections that influence the behavior of the elements and the entire system. The extent of those relationships determines the complexity of a system. The more extensive the relationships are, the more difficult the analysis and steering of a system become (Beer 1962, 27; Wieser 1959, 26).

An additional feature is the system structure, which maps the relationships between the individual system parts. This arrangement of the individual elements plays an important shaping role for the system. Therefore, recognition of the system structure is crucial

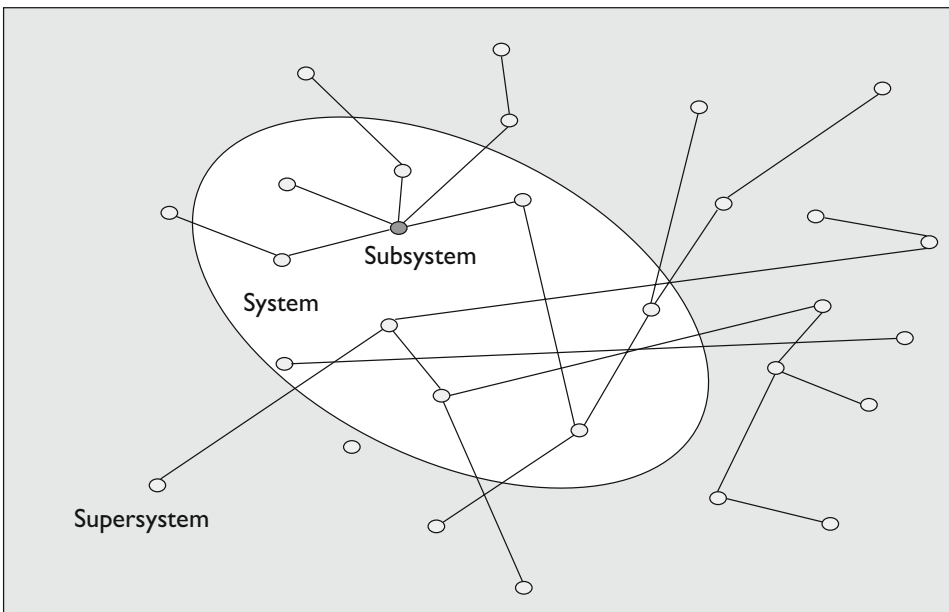


Figure 2.1 Delimitation of a System from the Super-system
Source: Based Ulrich/Probst, 2001

in order to explain the system's behavior and trigger certain system behaviors. Natural dynamic systems can achieve desired end statuses by self-regulation in their structure. This "natural order" of the elements is also a sign of the internal equilibrium and a natural structure of things. In artificial systems, however, it is more likely for this natural order to be perceived as disorder. Artificial systems are created by people for specific purposes and given a specific structure. This order disappears over time, so order and stability have to be deliberately created with regard to the objectives.

To sum up, a system is a structured unity that can be transferred to different contents and a way of thinking that allows relationships between elements and a larger unity — the system — to be captured.

2.1.2 System Stability and Instability

In addition to the system characteristics described above of unity, elements, structure, and relationships described above, from the point of view of cybernetics systems above all have to be considered in terms of their stability.

System theory is essentially seen as a means of managing environmental complexity. The starting point of the thinking is a complex environment, within which the system significantly reduces complexity. Systems are acting unities that handle the problems of a complex and changing environment in a collective production process involving the division of work in order to ensure that environment's continued existence. Systems that do not address the environment, or in other words that do not build and maintain a convergence of complexity between the system and the environment, cannot exist or survive.

Processing the complexity of the environment requires enterprises, as systems, to create structures within themselves that allow them to handle environmental influences. A complex environment demands the creation of a complex internal corporate structure in order to be able to capture and process the wide variety of relationships with the environment.

Example

Division, Department, Jobs

One application of this system theory approach in corporate practice is the organizational mapping of subsystems. The objective of organizational implementation is to support the corporate strategy and provide help in its implementation. For example, the organization can be mapped into divisions, departments, or jobs that specialize in specific system functions. ◀

The relationship with the environment also means, however, that changes in the environment constantly cause new problems for the system. This means that systems constantly display instability and are, therefore, threatened. Maintaining a system's stability is a permanent problem for corporate management (Luhmann 1984, Covin/Slevin 1997).

The variety of the system and the system influencer (the controller) are decisive factors when it comes to instability problems. On the one hand, an attempt must be made to

capture the system's complexity. This may be done in management practice by applying proven business models, game rules, concepts and comparisons. On the other hand, the variety of the controller (of management) has to be increased. Therefore, the executives' social and strategic skills have to be improved to increase the diversity of options for action (Gomez/Probst (1997)).

View from the Media: Nespresso CEO: "The employee is no longer in a commercial logic, but one of impact"

Bilan, May 4, 2023

It's been a year since Nespresso obtained B Corp certification. Its CEO, Guillaume Le Cunff, and Jonathan Normand, the man in charge of the label in Switzerland, share their vision of the company and the values it should convey.

Guillaume Le Cunff (GLC): "Take someone from Nespresso and get them to spend two days with one of our coffee growers. They'll no longer be thinking in terms of sales, but in terms of impact.

Guillaume Le Cunff, Nespresso joined the B Corp community a year ago. What has certification brought the company, particularly in terms of image?

GLC: The movement is growing rapidly. So, of course, B Corp certification is more visible every day, even if the Anglo-Saxon countries are still ahead of us. That said, I think it's a little too early to measure the impact on image, although I have no doubt that it will be positive. But in any case, that's not why we do it. The impact on the brand is the consequence of what we feel is most important today, which is continuous change and improvement internally, coupled with our teams' pride in working for Nespresso. "I don't believe that employees get up in the morning with the sole ultimate goal of the commercial success of a brand", Guillaume Le Cunff, CEO of Nespresso.

GLC: On this subject, the feedback from our recruiters is formal. They'll tell you that nine times out of ten, the subject of engagement and therefore B Corp is part of the conversation.

Jonathan Normand (JN): For our part, we regularly ask certified companies around the world about the benefits of B Corp, and all are unanimous: the attractiveness of talent comes in the first place. I'd like to add that it's not just the new generations but also people in career transition who are looking for a company that can offer more than just a good job and a good working environment. They all want an employer capable of making a positive impact. I hear you, but when you join Nespresso, you don't sign up for an NGO. You know there's a business objective.

GLC: I don't think employees get up in the morning with the sole ultimate goal of a brand's commercial success. They see success as a means of pursuing a higher cause, a commitment. It's very simple: take someone from Nespresso, take him to spend two days with one of our coffee growers, and have him share a meal with his family. He'll no longer be thinking in terms of sales, but in terms of impact.

JN: “The challenge of a certification like B Corp is to offer people the means to analyze and change their relationship with immediacy.” I can imagine that the field can be inspiring, but can a certification have the same effect?

GLC: Certification fosters confidence among employees. It enables team members to be ambassadors for their brand, knowing that their employer has gone through three years of auditing by a movement considered to be the most serious. Above all, it provides figures and scores in a world where social networks convey emotions and opinions that are often based on a few facts. Today, when you’re a big company, you’re necessarily a green washer. But for me, the bigger you are, the greater the impact you generate.

2.2 Cybernetics in System Theory

System theory was and is still today strongly influenced by cybernetics. The word cybernetics comes from the Greek “gubernetes”, the helmsman. The word is easy to recognize in terms, such as “gouverneur”, “governor”, “gouverner” and “corporate governance”. American mathematician Norbert Wiener laid the foundations of cybernetics in 1948 with his book “Cybernetics: or Control and Communication in the Animal and the Machine”. “Control” is to be understood here in the sense of “master, regulate, steer, direct, influence and bring about”. Cybernetics can be taken to be the art of steering, regulating and directing.

Cybernetics has always been a fascination for certain academics. Because of this, there are several definitions of cybernetics with quite major individual differences. The following is a short extract from them:

- Wiener 1963, 39: cybernetics encompasses “the whole area of control and communication theory”.
- Wieser 1959, 17: cybernetics is “the science of control mechanisms”.
- Wieser 1963, 13: cybernetics is the science “that concerns itself with problems of steering, control and the transmission of information”.
- Beer 1962, 21: cybernetics comprises “the science of communication and control”.
- Ashby 1970, 4: cybernetics is “the study of systems that are open to energy but closed to information and control”.
- Frank 1962, 13: cybernetics as “the theory of the intake, processing and spatiotemporal transmission of information”.
- Flechtner 1966, 10: cybernetics as “the general, formal science of the structure, relationships and behavior of dynamic systems”.

The definition of cybernetics illustrates the diversity of academic interest in a superordinate “super theory” and its complexity. However, the definitions show that cybernetics is

based on two underlying concepts — information and the system — which are fundamental to all natural and social processes. One fundamental insight is that it is not the material and energy in a system that are the decisive factors, but the information that orders and organizes the basic elements. The component elements only become a system through the information. The central discovery of cybernetics was that there are natural laws that define and determine the control of all systems (Malik 1998b, 135).

Even the individual academic thus also has to apply cybernetic approaches and ways of thinking to gain new insights. This is very probably the reason why cybernetics has established itself as an interdisciplinary science.

Cybernetics conducts research into the same phenomenon in all areas, whether in nature or society, that is, the creation and directing of states. It concentrates on one aspect of the behavior of dynamic systems: steering and regulation processes. In doing so, cybernetics takes the position that formal design principles that apply to all dynamic, goal-oriented systems. As a result, cybernetics is not only helpful in mapping reality; practical design models can also be derived from it (Métayer 1970, 23ff.).

A cybernetic system is characterized by steering, regulation, and adjustment processes (Flechtner 1966, 44). A prerequisite for steering is that a goal is always set externally for the system and the direction and nature of the behavior is directed. Regulation is achieved when the system changes its behavior in such a way that the externally set target value is achieved. When adjusting, the system changes its behavior in such a way that a state of equilibrium between the system and the environment arises. This self-developed target value is the future objective for regulation. Regulation and adjustment are, therefore, two stages of the self-regulation of systems.

The circuit as a steering process describes a self-regulating system (e.g. a company) in which a target value — an objective — is set. The central characteristic of this concept is the existence of a regulator that assesses the state of the system using certain target parameters. This diagnostic function puts the regulator in the position of being able to distinguish exceptions from the planned or normal states. In the case of differences, the system autonomously sets previously defined corrections in motion in order to restore the programmed target state. This feedback leads to the permanent maintenance of a state of stability in the system.

One frequently cited analogy for a self-regulating system is the human body. The body temperature of a human being is defined as normal within a relatively narrow range between 36° C and 37° C. If the temperature rises above the critical mark, the organism reacts by sweating, which cools the surface temperature by evaporation and ideally brings it back within the normal temperature range. Conversely, if the organism falls below a critical temperature point, it causes increased physical movement in the form of shivering, as a result of which the body temperature rises again.

The described processes of steering, regulation and adjustment have one thing in common: the intake, processing and communication of information. Information is the crucial factor for the activity of an element or a system. To ensure that the elements of the system receive purpose-related knowledge, processes for the transmission of information are required. In generally, we are talking about relationships between people, between people

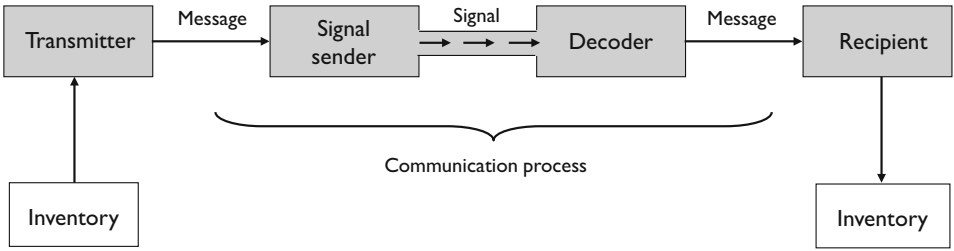


Figure 2.2 Basic Model of the Communication Process
Source: Based on Ulrich, 2001

and machines and between machines. This communication process can be presented in simplified form as a channel between a transmitter and receiver (Figure 2.2).

The transmitter selects the appropriate message and transmits it via a signal sender (transmitter, encoder) in the form of signals to a signal receiver (receiver, decoder). The signal receiver decodes the message and transmits the signals to the receiver (recipient) (Shannon/Weaver 1949; Wiener 1952; Cherry 1963). This fairly technical explanation of the communication process makes it possible to transfer the process to different situations. However, in all situations the communication process can be impaired by technical or semantic interference. For example, technical transmission problems occur on the computer or linguistic misunderstandings arise between two people. The question immediately arises as to how to prevent or eliminate the interference. How can technical transmission reliability be increased? How can misunderstandings be effectively prevented? One possibility lies in returning the signals received for confirmation. Or the signal sender also receives its own transmitted signals and can therefore correct its own mistakes. Both possibilities use the principle of feedback. However, a message can also be protected from interference by making it long enough. Despite the interference, this long, redundant message is understood because it may be that only superfluous signals have been subject to interference. Naturally, combating interference in a system is directly linked to the issue of cost.

Cybernetics is focused on complex, dynamic systems that cannot be accurately described and whose behavior is unpredictable. The black box theory is often applied. The processes in the system’s interior are not recorded in detail but observed from the outside. Certain systems, such as the brain, would be destroyed if their internal function were examined. Only inputs and outputs are determined. The system is therefore played with by altering the input, and the outcome resulting from the modifications is then analyzed.

Example

Black Box Credit Suisse

When UBS rescued CS in an emergency on March 19, 2023, it took over a black book. an in-depth audit of the books was not possible in terms of time, so the person responsible, Beatriz Marin Jimenez, had to make assumptions about the values and risks of CS (NZZ, 2024). ◀

With the help of the black box technique, the behavior of real systems can be simulated based on models; this enables complex reality not only to be explored but also actually to be shaped (Beer 1962, 71). It is also helpful to focus on the inputs and outputs in order to ensure that the main dimensions of a system do not disappear. To put it another way, the technique discussed can also be considered as a means with which to master complexity.

Example**The black box technique at IKEA**

IKEA adopts the “black box” technique when entering new international markets. In this way, the company prepares its employees for the complexity of its market entry strategy with a “try and fail” philosophy. As experience in China has shown, management is aware that it is not possible to master all factors at first, and that interrelationships are extremely complex. A “cause and effect” approach is bound to be limited in such cases.

The company prefers to gradually share its knowledge of what works and what doesn’t, in order to adapt the product range (e.g. kitchens), the presentation processes (e.g. furniture showroom) or the handling process from furniture order to delivery. Initially, IKEA had to overcome a number of difficulties to adjust its concept. However, its growth strategy, known as duplication, together with the “black box” technique, enabled the company to successfully enter different markets. ◀

In cybernetics, mastery — the bringing under control — of complexity is the core consideration. It is not the system itself that has to be mastered but its complexity. This complexity can be measured by the variety defined here as the number of possible, distinguishable system states (Malik 1998b, 138). Cybernetics focuses on the question: What would the states be like if they were to develop their full variety? Cybernetics is not concerned with the question of the properties of the actual existing states. Thus, a conceivable number of possible system states is the conceptual starting point of cybernetics (Malik 1996, 190–191). So that a complex system with high variety can be kept under control, it is essential for the system not to move into states that appear undesirable. It is often mentioned in this context that the complexity of a system has to be reduced so that it can be mastered. On the other hand, it should be noted that desirable capabilities may be lost through the reduction. Simpler systems can’t possess certain desirable capabilities because higher capabilities arise from complexity. A certain minimum of complexity is needed to achieve higher performance.

Example**Football and chess**

In a game between two football teams, the one that displays more variety will win. The superiority of Team C can be explained by the way the players can implement their tactical, technical, and mental skills and their physical condition. Likewise, the competencies of the trainer and his staff influence variety. Team F has to try to increase its own variety

in the second match or bet on Team C no longer having the greater variety. This may happen, for example, through injuries to key players or poor decisions by the trainer.

Chess, as the game of variety, emphatically demonstrates the dynamic of variety. For example, the number of options increases for the player from the first move onwards. Depending on the opening move the player selects, he himself affects the number of subsequent possible moves. This dynamic is further reinforced when the opponent exerts an influence with his opening and his strategy. The variety of possible moves in chess increases exponentially. Towards the end of the game, the variety is steadily reduced until a checkmate or a draw is declared. There are said to be 10 to the power of 155 different options in chess. ◀

The more complex an enterprise is, the greater are its strategic options and the more varied are the ways in which it can respond to environmental changes in the market, or with customers or suppliers. At the same time, it is a more complex and demanding task to keep the system under control and to choose and use the optimum options from the many possibilities available.

It is a logical conclusion that complex systems can be controlled only by complex means. How much complexity is therefore needed in steering and regulation? The law of requisite variety developed by neurophysiologist and cyberneticist W.R. Ashby answers this critical question. To bring a system under control, at least as much variety (complexity) is needed as the system itself possesses. Complexity can be controlled only by complexity, or as Ashby (1970, 202ff.) puts it, only variety can absorb variety. The law of requisite variety demands that the variety available for directing the intended objectives has to be at least as high as the variety of the system to be directed.

Example

Manchester City and its coach, Pep Guardiola

It seems that Manchester City is applying Ross Ashby's law: "Only variety absorbs variety." In other words, this means that a team's playing system can only surpass that of its opponent if its variety is at least as high as that of the opposing team's playing system. Variety revolves around the tactical, physical, technical, and mental skills of the players, as well as the leadership skills of the coach and his assistants. How can we observe that the opponent's playing system is weaker in terms of variety? For example, if players are injured or the coach makes poor decisions.

The Manchester City team tries to increase the variety of its footballing play, for example, by combining different play systems to surprise its opponents and by preparing its players to anticipate their teammates' next move at any time during the match. Manchester City coach Pep Guardiola is known for his attention to detail and his constant drive to improve the variety of tactical, technical, and mental behaviors of his players. Manchester City has hired a Performance Manager to master the complexity of the playing system. This Performance Manager employs 80 staff to analyze the data from a soccer match. This data is used to prepare each player individually before a game and to lead the team throughout its season, with over 80 matches in the Champions League. ◀

2.3 System of Systems

The system-based approach, and with-it cybernetics, is a useful basis in management studies for new insights into the management of enterprises. Business phenomena and problems can be analyzed using the general findings of system theory and, above all, of cybernetics because natural systems and those designed by human beings display certain generally valid commonalities and principles.

An enterprise as a whole can, therefore, be designated as a system that is made up of various subsystems. The enterprise is primarily a subsystem of society as a whole that performs a number of socio-economic functions. It should be understood as part of a much larger network of institutions. It is not just an economic entity with economic objectives but has more and more of a social function.

The system that is an enterprise can be described in more detail by further system attributes. In terms of system theory, an enterprise is an open system. It exists in interaction with a constantly changing environment to which the enterprise has to adapt ever more rapidly. Consequently, an enterprise is a dynamic system. Processes are constantly ongoing within the enterprise and with the environment, and this challenge virtually forces the enterprise to develop continually.

An enterprise is a living, sociotechnical system. The elements of an enterprise are people and things such as machinery and raw materials. The interaction of the individual elements here is directed towards a purpose and an objective. Relationships exist between the elements (communication and production structure), i.e., the enterprise results from a deliberate shaping process. The structure is not just the result of deliberate shaping measures (formal organization structure), but is also formed unconsciously (informal information structure). The relationship is relatively permanent. The system is a living one to the extent that all change processes concerning external and internal influences are also learning processes.

The enterprise is a highly complex system because of the large number of sub-activities and subsystems and the informal internal and external relationships. Even a medium-sized company is a system of staggering variety. This means that an enterprise can take on a large number of different system states depending on the internal and external change processes.

The enterprise is a market-oriented, market-dependent, and economically self-supporting system. To survive and perform its functions, it must manage its business profitably or at least cover costs. The increasing complexity of control applications has reached a point where the transition from single-input, single-output systems to multivariable control requires new concepts, tools, and techniques. The concepts are characterized by decentralized, distributed, networked compositions of heterogeneous and (semi)autonomous elements.

These so-called “System of Systems” (SoS) have arisen from the systems engineering community and reflect the interest in concepts and developments, such as smart grids, integrated supply chains, collaborative enterprises, or next-generation air traffic management (Jamshidi 2009, Boardman/Sausser 2006, Gorod et al. 2008).

What Are Systems of Systems? As the term implies, a system of systems is a composition; it consists of components that are themselves systems. The term “System of

Systems” (SoS) describes an overarching structure consisting of multiple, largely autonomous, and independent systems that work together to perform more complex functions that no single system could achieve on its own (Maier 1998, 270 ff.). These systems retain their independence and functionality but interact with each other to fulfill a common task or achieve a common goal. The following features characterize the SoS:

- Independence: Each subsystem is autonomous and can operate independently of the other systems. They have their own functions, management, and life cycles.
- Distributed control: There is no centralized control over the entire SoS. Instead, control is decentralized and each system in the SoS has its own decision-making power.
- Emergent properties: The SoS exhibits properties and capabilities that emerge from the cooperation of the individual systems, and that would not be recognizable by looking at a single system.
- Evolutionary behavior: An SoS is often dynamic and evolves over time, with systems being added or removed without the need to decommission the entire SoS.
- Geographical distribution: The systems within an SoS are often geographically distributed and communicate with each other via networks.

Example of SoS

Military alliance or traffic management system

Military alliance in which various autonomous systems, such as communication systems, weapon systems, and surveillance systems, work together to provide a coordinated defense strategy. Each of these systems could function independently, but working together creates a much more robust structure.

A modern traffic management system consists of various individual systems such as traffic lights, traffic sensors, surveillance cameras, and navigation systems, which can optimize traffic flows and minimize congestion. ◀

Chapter Appendix

Key takeaways

- The systems approach and cybernetics provide an appropriate basis for new understandings of business management. The company is a living system in perpetual contact with its environment.
- The systemic approach enables managers to understand the company’s system better to control it more effectively. This approach aims to observe problems, identify the system’s elements, highlight their interrelations, and understand the system’s role.
- Cybernetics aims to master the complexity of systems, particularly through information feedback to the system. This information is used to guide the system better.

End of chapter questions

1. Explain the Law of the Requisite Variety by William Ross Ashby with an example:
“Only variety can absorb variety.”
“The larger the variety of actions available to a control system, the larger the variety of perturbations it is able to compensate.”
2. Systems are constantly threatened by instability. Give possible reasons for this instability.
3. Vester (1990, 43) played a major role in defining the concept of bio-cybernetics and developed principles of nature that are thought to guarantee the survival of complex systems. Search for the basic rules of bio-cybernetics using a variety of sources of information and knowledge.
4. One proposal for making it possible to control a system is to reduce its instability. How would you assess this approach?

Case Study 1: Budweiser and Bud Light

It's going to cost a lot of money — Budweiser is trying to win back its regular customers after a scandal caused by a gender-related advertising campaign. A failed advertising campaign for Bud Light caused the beer giant Anheuser-Busch's second-quarter profit to plummet due to exceptional expenses. “Keep calm and move on” is now its motto. Whoever relies too much on polarizing minorities in advertising risks losing the majority. This was most recently seen in the beer trade, when sales of Bud Light literally collapsed in the USA after marketers at the Anheuser-Busch brewing group (the company that produces Bud Light) advertised with transgender influencer and TikTok star, Dylan Mulvaney, scaring off their regular customers. Anheuser-Busch teamed up with Dylan Mulvaney to boost its “Easy Carry Contest”, a contest in which customers can win \$15,000 if they share videos of themselves drinking Bud Light. To promote the contest, Mulvaney shared a sponsored video in April 2023 in which she appeared dressed as Audrey Hepburn. The company also launched a special series of Pride cans. To celebrate the first anniversary of Mulvaney's gender reassignment, Anheuser-Busch also sent her a special Bud Light can featuring her face and the inscription, “Cheers to 365 Days of Being a Woman”, which referred to the preface of her Days of Girlhood series.

Conservatives took to social media to protest the partnership between Mulvaney and Budweiser and called for a boycott. At the heart of the outrage was the now-typical right-wing aversion to anything considered to be woke, whether it be the living conditions of black people throughout history or pronouns they don't understand. Conservative John Cardillo denigrated Mulvaney in a tweet, calling her “an adult who dresses like a little girl” and others insinuated that she was a sexual predator. Things got even worse when American country superstar Kid Rock shared a video on social networks of himself destroying crates of Bud Light with an automatic rifle.

Controversial advertising is no longer an option

As a result, the world's largest beer brewer had to admit that profit and market share had fallen sharply in the second quarter. This was after consumers had shunned the brand following the advertising — and drew the consequences. He announced that, in the future, he would steer clear of controversial topics and concentrate on what attracts a large audience.

"People don't want to enjoy their beer in the context of such a debate. They want the beer to be simple, to be for everyone, and to drink it with their family and friends without thinking too much about it," said company president, Michel Douker, in an interview. He referred to a survey commissioned especially for the occasion, which showed that the Bud Light brand still enjoyed a positive image and that the brand should continue to be sold. Indeed, after the Bud Light episode, Anheuser-Busch's market share in the overall US beer market fell by 5.2 percentage and dropped to 37%. The term "woke" literally means "awake" and originally refers to being aware of issues related to social justice and racial equality. Bud Light accounted for two-thirds of this fall, but the consumer boycott also affected other brands in the group. By contrast, sales of comparable products from competitors, such as Coors or Miller, rose sharply, while total beer sales fell back slightly, with prices sometimes rising sharply.

American beer brewers took advantage of the inflationary context, especially in the second half of last year, to impose price increases of up to almost 10%. In the meantime, price rises have slowed somewhat but are still at a historically high level of around 6% as suppliers seek to compensate for sluggish sales volumes and ensure increased revenues.

Anheuser-Busch recently announced that second-quarter sales in the USA, its biggest market, were down by almost 11%, while earnings before interest, taxes, depreciation and amortization were even down by almost 30%. The brewer attributed this sharp drop in profits to the loss of market share, as well as to increased marketing and support costs for distributors, who were hit hard by the drop in Bud Light sales. Since the boycott, the production of new Bud Light ads has been stepped up, focusing on the themes of soccer and country music. Distributors can count on the possibility of returning cases of beer sold past their sell-by date in return for financial compensation.

Political sensitivity is the order of the day

Since then, Bud Light has been the subject of case studies for consumer-oriented companies who want to know how or if they should express themselves on sensitive political or social subjects. Of course, LGBT+ issues are particularly in the spotlight. Retailer Target, for example, has faced accusations of suspending the sale of certain items during Pride month in June, after customers knocked over displays and threatened employees.

Questions for Discussion

1. Analyze the impact of social media activities for Budweiser.
2. How could the company govern the challenge of wokeism in the future?

Case Study 2: Leonteq — from new venture creation to Initial Public Offering (IPO)

In 2007, Jan Schoch, Lukas Ruffin, Sandro Dorigo and Michael Hartweg founded Leonteq in Zurich, Switzerland. They had acquired solid expertise in structured products and wealth management through their professional backgrounds at renowned financial institutions. The company's vision was to meet the growing demand for structured products in the Swiss financial market by providing customized solutions and an innovative platform. Under the leadership of Jan Schoch as CEO, Leonteq experienced rapid growth. The company distinguished itself by developing structured products tailored to its customers' needs. Notable products included index-linked investment structures, developed in close collaboration with Marco Amato, who headed distribution and strategic partnerships.

Under Jan Schoch's leadership, the company has taken important steps to expand its international presence. 2010 for example, Leonteq opened an office in London, headed by Frank Troise, to better serve customers in the UK and Europe. This expansion has enabled Leonteq to capitalize on growth opportunities in global financial markets. In 2012, Leonteq took a major step forward by being listed on the SIX Swiss Exchange. This operation enabled the company to raise capital to finance its growth, strengthening its position in the financial markets. But in 2015, Finma accused Leonteq of market manipulation and initiated proceedings. This news, coupled with poor general market conditions due to sharp currency fluctuations and the implementation of regulatory changes following the 2008 crisis, dealt a critical blow to Leonteq's share price, which plummeted. It fell from CHF 221.00 in mid-September 2015 to CHF 140.00 at the end of December 2015, then to CHF 32.00 at the end of December 2016.

Over the years, Leonteq has diversified its range of structured products and succeeded in stabilizing the share price. Under the leadership of Lukas Ruffin as CTO (Chief Technology Officer), the company has expanded its offerings to include products linked to equities, interest rates, commodities, and currencies. At the same time, Thomas Meier headed the wealth management division, offering tailor-made solutions to an expanding client base. As the financial industry was subject to increasingly stringent regulations, Leonteq invested heavily in regulatory compliance. Philipp Rufibach, CCO (Chief Compliance Officer), oversaw these efforts to ensure that the company complied with international standards and ever-changing local regulations. Leonteq underwent management changes. In 2017, Marco Amato became CEO, bringing his strategic vision to the company. Management changes have played a key role in the company's future direction and its ability to adapt to the challenges of the financial sector. Since April 2018, Lukas Ruffina has replaced Marco Amato at the head of the company. As for the share price, it has not yet recovered from the hard blow of 2015. In mid-2023, shares will still be selling at around CHF 40.00 each.

Questions for Discussion

1. How does Jan Schoch, Marco Amato, and Lukas Ruffin's 2007 founding of Leonteq AG illustrate a systemic approach to the company's creation, considering their combined expertise and the objective of meeting growing demand in the Swiss financial market?
2. What elements of Leonteq's international expansion, notably the opening of an office in London in 2010, reflect a systemic approach to the company's growth and its ability to seize opportunities in global markets?
3. How can Leonteq's IPO in 2012 be seen as a milestone in its development and how does this fit into the company's global strategy?
4. How can the diversification of Leonteq's activities, including expanding its range of structured products and creating a bespoke wealth management division, be seen as part of its systemic approach to meeting the changing needs of its customers and ensuring its competitiveness in the financial sector?

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Management studies can be regarded as applied cybernetics because both disciplines are concerned with designing and steering complex and dynamic systems. All managers are cyberneticists, intentionally or otherwise, because they are trying to bring under control a system of incredibly high variety. According to a pioneer of management cybernetics, Stafford Beer (1966, 239), management is the mastery of “high variety systems”. As discussed above, even a medium-sized company has an incredibly large number of possible states. A manager will undoubtedly find indications in cybernetics as to how they can perform complex tasks.

View from the media: The Unaccountability Machine — why do big systems make bad decisions?

Dan Davies makes a compelling case for the use of Stafford Beer’s management cybernetics in the age of AI

Financial Times, April 4, 2024, by Felix Martin

Waiting to board a flight recently, I witnessed a stark example of a phenomenon at the heart of The Unaccountability Machine. A fellow passenger had been refused boarding and was pleading with the airline attendant. The attendant was obviously sympathetic — but it was down to company policy. There was unfortunately nothing she could do. We were witnessing what Dan Davies calls an “accountability sink”: a situation in which a human system delegates decision-making to a rule book rather than an identifiable individual. If something goes wrong, no one is held to account. The starting point of Davies’ entertaining, insightful book is that the uncontrolled proliferation of accountability sinks is one of the central drivers of what historian Adam Tooze calls the “polycrisis” of the 21st century. Their influence reaches far beyond frustrated customers endlessly on hold to “computer says no” service departments. In finance, banking crises regularly recur — yet few individual bankers are found at fault. If politicians’ promises flop, they complain they have no power; the Deep State is somehow to blame. The origin of the problem, Davies argues, is the

managerial revolution that began after the second world war, abetted by the advent of cheap computing power and the diffusion of algorithmic decision-making into every sphere of life. These systems have ended up “acting like a car’s crumple-zone to shield any individual manager from a disastrous decision”, he writes. While attractive from the individual’s perspective, they scramble the feedback on which society as a whole depends. Yet the story, Davies continues, is not so simple. Seen from another perspective, accountability sinks are entirely reasonable responses to the ever-increasing complexity of modern economies.

Standardisation and explicit policies and procedures offer the only feasible route to meritocratic recruitment, consistent service and efficient work. Relying on the personal discretion of middle managers would simply result in a different kind of mess. The question, therefore, is not how to return to a world without non-human decision-making systems — it’s how to ensure that they’re open to feedback, able to adapt and improve. The Unaccountability Machine scrutinises two intellectual frameworks that aim to supply an answer. The first will be well known to most FT readers: economics. Davies judges it hopelessly deficient. Its highly abstract theories of how firms and markets operate are trivial, he argues. Worse, the classical postulate of the optimality of market outcomes positively feeds the accountability crisis by convincing managers and politicians that it is better to let the market decide. Milton Friedman draws especial ire. Davies argues that his highly influential doctrine of shareholder value-maximisation spawned a pandemic of corporate accountability sinks; other objectives were unduly marginalised. Recent debacles at Boeing in the US and Thames Water in the UK suggest he has a point. Instead, Davies argues, there exists a second, better way — one less familiar to most of us. This is “management cybernetics”, a framework for understanding the corporate and economic world that emerged from operations research, the use of mathematics to solve problems of human and technical resource management that began during the second world war. It’s a kind of psychoanalysis for non-human intelligences, with Stafford Beer as Sigmund Freud. Davies’ hero here is the management consultant, information theorist and philosopher Stafford Beer, whose heyday in the 1960s and ’70s saw him advise CEOs and governments around the world. Beer conceived of companies as forms of non-human intelligence — what the science-fiction writer Charlie Stross calls “very old, very slow AIs”. As such, solving their problems is a matter not of eliminating market failures, but of ensuring that the flow of information between deciders and decided-upon is kept in balance. It’s a kind of psychoanalysis for non-human intelligences, with Stafford Beer as Sigmund Freud. Davies laments the combination of political backing and intellectual fashion that saw economics triumph instead.

But with *The Unaccountability Machine* he provides an elegant new introduction to this intriguing road-not-taken in postwar social science, and makes a compelling case that in the age of AI its time has finally come. So how about practical recommendations? Davies argues that in the corporate world, the most obvious one is to defang the leveraged buyout industry. Here, the cybernetic solution is to require private equity investors to guarantee the debts of takeover targets, sealing off the great accountability

sink of limited liability. Beyond this, though, Davies is coy about specifics. The most important thing, he says, is to dethrone mainstream economics. “You can’t have the economists in charge,” he writes, “not in the way they currently are.” Surveying the waning of economic orthodoxy around the world today, with free trade in retreat and industrial policy back in vogue, I’d say that wish is being granted. Perhaps management cybernetics will indeed finally have its day. *The Unaccountability Machine: Why Big Systems Make Terrible Decisions — and How the World Lost Its Mind* by Dan Davies Profile £22, 304 pages Join our online book group on Facebook at FT Books Café and subscribe to our podcast Life & Art wherever you listen

www.ft.com/content/0bb1b48f-b85a-4596-a0da-ac819bc69647

3.1 Self-Regulating System — Control Circuits

In the enterprise as a system, all subsystems can be structured as cybernetic control circuits. The total system is a multi-level, integrated control circuit with varying degrees of complexity. A management circuit can, therefore, be localized. In addition, circuits that are more likely to be assigned to the operational level of an enterprise, such as operational business processes in logistics, could be identified.

When cybernetic principles are transferred to a business system, the states of a system must first be assessed. According to cybernetic thinking, target values are needed for this purpose. In companies, we refer to indicators or ratios that are able to define the state of a strategic objective with sufficient accuracy. In order to compare the actual values influenced by the actions with the target values, the practice of management prefers to use monetary parameters. These financial ratios are characterized by the fact that absolute and relative comparability is ensured. This type of ratio is suitable only for a diagnostic assessment of the actual state of a business system. However, the measurement of monetary parameters is, in most cases, based on the company’s past performance. This is diametrically opposed to the long-term orientation of strategic objectives, which is why the suitability of indicators of this kind as strategic control parameters is limited. In other words, management means shaping, directing (in the sense of targeted actions), and developing social institutions. The concept of a self-directing open system (in terms of operations and scheduling) is fundamental to the understanding of these directive processes (Ulrich 1970).

Monetary ratios are, therefore, not suitable for gaining control of complex strategic problems in a company. On the strategic management level, for example, different ratios are needed to steer the parameters of “liquidity” and “profit” up front. The orientation to new and existing success potentials enables the company to perform the tasks of regulation and adaptation in a future-oriented way.

This means that management defines as regulators adequate strategic control parameters, such as the existing and new success potentials, and has to focus on customer problems and market position.

The feed-forward propagated in cybernetics makes it evident that the essential guidance from the balance sheet, income statement, and cash flows, which are classed as operational corporate management, are derived entirely from past business periods. The control parameters of liquidity and management profit accounting, and the budgeted balance sheets that build on these, can then only be operationalized to steer short-term goals.

However, business strategies generally consist of medium- to long-term objectives, which in turn are implemented using appropriate actions. The retrospective monetary diagnostic parameters are quite suited to assessing the results of these actions. For the kind of long-term objectives meant by the term cybernetic controllers, however, parameters that can influence the position of the business system and, therefore, its above-mentioned diagnostic indicators should be identified as control parameters. These strategic control parameters, in the form of existing and new success potentials, are determined by a company's market position, products, and processes and by innovations that enable new potentials to be developed. Since the control parameters of these areas normally only have an indirect, or at least delayed, effect on the system, they represent the necessary cybernetic feedback, as their manipulation contributes directly or indirectly to the pursuit of strategic objectives (Stacey/Mowles 2016, 73)

Considerations regarding integrating non-monetary objectives and ratios into a strategy as control parameters to achieve more sustainable planning, for example, results from the central aspects of the balanced scorecard approach (For a detailed discussion of strategic control, see Chapter 5 on strategy). The principle of feed-forward and the associated problems of forecast information are manifested, for example, in a business plan. The financial section of any business plan is undoubtedly of particular importance. At a later point in time, it takes on the function of a diagnostic tool to compare the "fit" between the results of business development and the targets laid out in the business plan. However, financial planning cannot be viewed separately from other planning tasks, such as product development planning and distribution and sales planning. Rather, the objectives for these areas are a prerequisite for developing financial diagnostic parameters. Concentrating on liquidity as the most important control parameter, therefore, constitutes a dangerous simplification of the task of planning. It leads to the company's short-term objectives always being pursued in preference to long-term strategic business development. As a result, the company is generally unable to develop long-term success potential as it is almost entirely occupied with the task of survival. To sum up, an effective approach appears to be to steer the company using a balance of short-term monetary diagnostic variables and long-term, non-financial performance drivers. The former secures the financial survival of the enterprise, and the latter its sustainable development.

3.2 Enterprise as an Open System

To this day, cybernetics and the associated theory of open systems are strongly influenced by analogies taken from biology, but this approach has also been repeatedly criticized, particularly concerning implementation.

The enterprise's relationship with the environment is considered interactively; that is, the enterprise as a system is seen as being strongly influenced by the environment, but it is also possible that the enterprise itself can shape its environment. A distinction is made here between controllable and non-controllable elements of corporate management (Gomez/Probst 1997, 113ff.). The objective should be to preserve a systemic equilibrium with the environment to ensure the system's survival by this means. Cybernetics realized relatively quickly that, paradoxically, if they are to open up to the environment later, systems first have to close to create internal organizational aspects.

Thus, certain action patterns have to be created within the company as a system that makes it possible to order environmental complexity, i.e., to narrow it down in a specific way, reduce, and process it.

Example**The organizational dimensions of strategy, structure and culture**

Efforts by enterprises to shape internal values, norms, and behaviors by means of corporate visions, management principles, and corporate culture symbols are indications that the enterprise as a system is to be clearly demarcated from the environment (ecological, social, technological, and economic symbols). The corporate culture makes clear the paradoxical situation described. On the one hand, a strong corporate culture should be rated positively because of its clear orientation for employees and motivating effect. On the other hand, strong cultures are negative because they reinforce the tendency towards closed systems, and an enterprise, therefore, loses its ability to be innovative and think outside the box. ◀

In addition to this general conceptual underpinning of an environmentally open mentality in management studies, a number of specific theories have been dedicated to the systemic equilibrium between the enterprise and the environment. Of particular note is the evolutionary theory approach, which uses the model of the viable system.

3.3 Enterprise as a Viable System

The main champions of the evolutionary approach develop the system-based approach into an evolutionary management model or a model of the viable system on the basis of cybernetics (Beer 1981; Malik 1996; Ulrich 2001; von Foerster 1974, 2002). The enterprise is viewed as a self-organizing system capable of development and is characterized by the following elements:

- The basis is integrated cybernetic thinking.
- Adaptability, flexibility, learning capability, and self-organization are central.
- Institutions and developments are only partially controlled by human beings in a purpose- and goal-oriented way (self-organization processes).

- Instead of structured and process-oriented thinking, recognition of the evolutionary mechanisms of total systems comes to the foreground.
- The findings of various related disciplines, such as biology and neuroscience (Fehr 2005, 29), are incorporated.
- Social institutions are not the result of deliberate, purpose-oriented planning and direction; they result from growth and development processes (Malik 1996, 254).

In the cybernetic sense of the term, the viability principle does not tell us anything about the system's actual state. It would be wrong to interpret viability simply as the ability to survive. Survival can be an objective or a desired state. Viability in the cybernetic sense is, rather, a desired configuration of a system's state that should be retained over a certain period of time (Malik 1996, 112). The viability principle illustrates the process of the formation of analogies for different types of systems.

As in nature, an attempt is made to resolve the steering and regulation of a complex system. For example, ecosystems have no regulators and no organizers; they regulate and organize themselves. These two important principles of self-regulation and self-organization are increasingly applied to different systems, whether technical or social. A striking feature of technical systems is the progress that has been made in control technology, e.g. in the electronic control systems (ABS, EPS, navigation systems) of modern passenger cars. The entire steering system of a modern aircraft also has more to do with the functioning of a system than with that of a "machine". The analogies are obvious not only for technical systems but also for social ones. From this point of view, the enterprise is a "human system"; the problems of corporate management can be identified on three levels: the tangible, functional, and meaning levels (Ulrich/Probst 2001, 98). The levels raise different issues:

What is the point of the system? (Meaning level)

Since states and processes are the results of human intentions and are assessed on the basis of values, analogies cannot be created here. On the other hand, it is possible to incorporate findings from the cultural sciences. One of the tasks of management is to determine the social responsibility of the enterprise and its leadership values. Management's activities appear to lend and communicate meaning here.

How does the system work? (Functional level)

The functioning of the enterprise within the context of its links to its environment has to be ensured; intangible, informational processes are crucial here. It is management's task to communicate the attributes of a viable system to the enterprise. Because it is impossible to plan the system states precisely in a complex system (they can only be speculated upon), this is primarily a matter of integrating self-regulatory and self-organizational capabilities. The fundamental notion of management on this level is a kind of directed corporate development. "Soft", qualitative decision-making methods and a trial-and-error approach take the place of precise decision-making models.

What does the system consist of? (Tangible level)

The company is a tangible transformation system in a cash-merchandise-cash process. In the context of its input-output relationships, it exchanges materials, energy, and information with its environment. The input-output relationships are measured in quantitative terms. The Management's task lies in rational planning that can be performed with the help of mathematical models and decision-making models. Management and management studies are often criticized for concentrating heavily on the tangible level and for reducing the issues with the other levels' to quantifiable parameters, almost to the level of feasibility (1998a). Notable progress has been made on the second level over the past years thanks to a sophisticated approach to thinking about strategic management. The third level, however, which can be roughly outlined by such terms as ethics, value, corporate culture, and corporate philosophy, for example, is still in its infancy.

3.4 Situational Relativism

Situational thinking arises from open and constant interaction with the environment. The situational approach moves away from the notion that all enterprises are the same and helps to prevent statements from being generalized without examination.

For example, the benchmark for many management concepts is the model of industrial corporate groups that operate within an international framework and are characterized by significant scale-related standards. The following example illustrates the problems with this approach: It is likely to be less promising to transfer marketing concepts developed for wholesale multinational corporations to new start-ups, which have to operate under quite different conditions. A situational view based, for example, on the size of an enterprise would definitely be useful.

Furthermore, with situational relativism, the overwhelming diversity of enterprises and problem situations is accepted as a given. But it is also assumed that this diversity can be structured using different levels of the environment: the individual enterprise, the department, the group and the individual human being (Figure 3.1).

The aim of situational thinking is always to arrive only at situational relative statements (= statements with limited validity). Statements of this kind take an "if/then" form: if problem situation X occurs, then action AA or AB will be a suitable way of achieving the objective. From this point of view, there is no single generally valid, optimum path of action, but several appropriate ones depending on the situation. Which action or alternative is judged to be appropriate is a normative issue (= value issue). The terms "situational approach" and "contingency approach" is synonymous, and "contingency" is often used in the sense of "dependent on, conditional on". Less common but correct are other names for situational management, such as "if-then approach" or "it all depends".

Situational thinking is basic not only for theory but also in practice (Robbins 2001, 37ff.). All recommendations claiming absolute validity must be regarded with skepticism from the outset. For example, the eight attributes that Peters/Waterman (1984) formulated for excellent companies fail to offer any indications relating to the situation in which they are applied and the conditions of application. What would have become of cash-register

manufacturer IBM if Thomas J. Watson had made “stick to the knitting” his overriding principle?

With the situational approach, the crucial factor is that the concrete problem situations and conditions of application have to be stated; this means that the “if” component has to be treated systematically. Classifications and typologies, therefore, represent an essential pre-requisite for situational management.

A great many factors influence a situation. To reduce this variability to a practicable scale, one of the most essential tasks of any research is to form problem categories and develop situation typologies. So far, the emphasis has been on simple classifications. These are based on a single attribute or on a small number of unrelated criteria and are intended to highlight the differences and commonalities in the forms that companies take. There is a fundamental difference between the simple classifications and the comprehensive, methodologically sophisticated typologies. Typologies mean attempts to classify the empirical diversity of enterprises based on complex combinations of attributes. For example, the criteria for the creation of classifications may be: For example, criteria for the creation of classifications may be:

Dimensions of the internal situation (enterprise)

- Present factors and size of the company
- Legal form and ownership structure
- Information technology
- Production technology
- Range of market outputs (products/services)

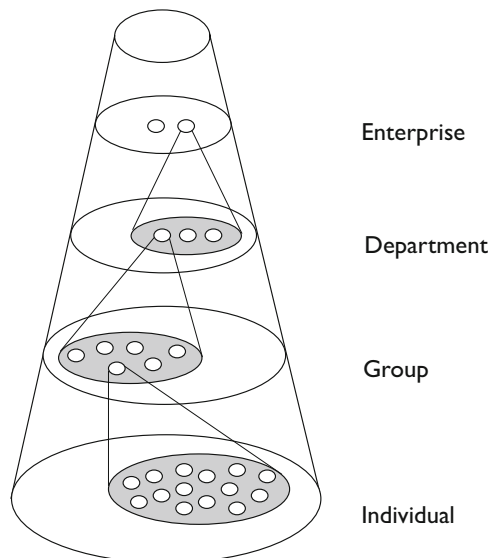


Figure 3.1 Situational Approach
Source: Ulrich/Probst, 2001

Historical factors

- Type of start-up
- Age of the enterprise
- Development stage of the enterprise

Dimensions of the external situation (environment)

Enterprise-specific environment

- Customer structure
- Competition

General environment

- Social conditions
- Cultural conditions
- Technological dynamic

The list of criteria cited here is related to three different models: the enterprise model, the development model and the environment model. It could be extended virtually ad infinitum since further attributes could be used as decision-making criteria.

Below, we will concentrate on the business sector (or branch of industry) and the size of the enterprise. The differentiating enterprises by business sector results in a very rough system of classification that is, nonetheless, based on essential differences between them. A distinction is typically made between industrial (primary), manufacturing (secondary), and service (tertiary sector) companies. The main characteristic of industry is the transformation of resources into products suited to satisfying mass demand. In this transformation process, standardized production technologies and an extensive division of work are used. Manufacturing businesses cover individual demand. Because of the small size of the business, the high level of specialist skills among employees, and the associated high flexibility, they can also satisfy highly differentiated needs. Their strength lies in the variety of market outputs to be supplied, the production of which requires technologies with a low level of standardization.

In contrast to industry and manufacturing, which together make up the secondary sector of an economy, the tertiary sector concentrates on transforming resources into services. It encompasses many business areas, such as banks, insurance companies, transport companies, and tourism.

The distinguishing attribute of size is based on the numerical importance of small- and medium-sized enterprises (SMEs) to the structure of the Swiss national economy. In accordance with a recommendation of the European Commission, as of 1 January 2005, companies are defined as small enterprises if they have 1-49 employees, under 10 million euros in revenues, or under 10 million euros in total assets.

The medium-sized category covers companies with 50-249 employees. According to the results of the last business census in several European countries, 99.7% of enterprises are described as SMEs, and these account for 70.6% of all employees in the private-sector industry. However, small and medium-sized enterprises are by no means a homogeneous group. For this reason, the quantitative attributes are generally enhanced with typical qualitative ones.

Criterion Designation	Headcount	Annual turnover (in million euros)	Annual balance sheet total (in million euros)
Micro enterprise	< 10	<= 2	<= 2
Small enterprise	10 – 49	<= 10	<= 10
Mid- or Medium-sized enterprise	50 – 249	<= 50	<= 43
Large enterprise	> 249	>= 50	>= 43

Table 3.1 Definition of SME
Source: European Commission (2005)

Examples of qualitative attributes are:

- Personal, corporate leadership
- SME owned by the entrepreneur
- Family as a framework
- Individualized products and services
- Narrow range of products and services
- A lot of intuition and- little planning

The qualitative attributes make it clear that a typology by enterprise size is not helpful in every case. What is required instead is a differentiated view of the situation, particularly where the aim is to discover success factors and the sources of problems and to indicate possible business development paths.

Chapter Appendix

Key Takeaways

- Every manager is, voluntarily or involuntarily, a cyberneticist seeking to control a system of incredible variety.
- The company’s management therefore defines suitable regulators in order to steer the company in the short and long term. By analogy with cybernetics, management identi-

fies problems by asking three key questions: What is the system's meaning? How does it work? What does it consist of?

- The company, as a system, is strongly influenced by its environment, but it can also influence it.
- Not all companies are alike and not all theories and recommendations should be applied in an absolute sense. Each company's specific situation must be considered.
- From a situational perspective, the perception of management situations is essential to understanding their complexity.
- Internal and external factors impact the analysis of the problem and the development of solutions.

End of chapter questions

1. Explain the principle of feed-forward using an example of your choice.
2. What are the fundamental concepts of a situational management approach?
3. Neurophysiologist and cyberneticist W.R. Ashby's (1970) principle: "Only variety can destroy variety" is among the pioneering concepts for controlling a complex system.
4. Interpret this principle.

Case Study 1: Freitag, or how an ecological concept can diversify

Freitag bags are still a success story made from recycled truck tarpaulins, even if demand has waned somewhat. They launched in the autumn of 2014, consolidating Freitag's core value of "ecological production." The Freitag brothers have come a long way. At the beginning of 1993, the two graphic designers began making their own bicycle bags from recycled truck tarpaulins, bicycle inner tubes, and seat belts. This concept revolutionized the world of handbags. One of their first pieces is on display at New York's Modern Art Museum (MoMA). Daniel and Markus Freitag, aged 52 and 53, respectively, have remained faithful to this concept to date, turning their idea into an innovative SME employing some 250 people and producing around 400,000 bags a year from 440 tons of used tarpaulin. The bags are not cheap, as they are always one-offs. They are sold through ten of the company's own stores (four in Switzerland, three in Germany, two in Tokyo, and one in Vienna), as well as 470 resellers worldwide. Although sales from their online store are still modest, they are growing rapidly.

True to their respect for the environment, the Freitag brothers moved their headquarters to a new ecological building in Zurich in 2011. A 350,000-liter rainwater reservoir was also built to cover the company's substantial water requirements (for washing the tarpaulins).

At present, the bags are sewn in Europe, as it is no longer possible to guarantee the required quality in Switzerland. The philosophy of respect for the environment has always been part of Freitag's DNA: recycling tarpaulins, using rainwater, and drying tarpaulins naturally. However, the company's ecological priority remains, giving a second life to these tarpaulins, which are a basic material derived from petroleum.

After a phase of continuous expansion, demand has eased somewhat, not least due to competition in the trendy bag market. While using the same materials, more sophisticated and luxurious bags were launched, aimed at a clientele with higher purchasing power and simultaneously aging with the brand. The family business in the hands of the two brothers does not publish figures, but estimates put annual sales at between 30 and 35 million Swiss francs. Since 2016, Freitag has applied the principles of Holacracy.

Target objectives

In January and June 2014, Freitag was forced to lay off six employees. These recent difficulties are explained by Monika Walser — former director of the company — by the fact that the business model has remained the same since the beginning. However, the Freitag brothers are not convinced by this explanation: “Our basic concept shows no signs of fatigue.

For Hans Häfliger — the company’s new managing director — Freitag remains first and foremost a bag manufacturer, even if the company motto is “More than Bags”. In early November 2014, the Freitag brothers will unveil their new project in line with this motto. The only clue is that the innovation in question is a new material that is perfectly suited to recycling. The Freitag brothers point out that their idea had been in the drawer for a long time, but that the technical feasibility has now been proven. This innovation is an example of diversification “in line with our philosophy”, says Markus. This innovation could even become a second pillar for the Freitag company.

Basic hypothesis

The two brothers who founded Freitag would like to transfer their concept to other business areas. Their new, easily recyclable material should enable them to further develop their founding idea of a closed, ecological circuit. The recycling of end-of-life products also influences the work of product developers since they have to take this into account right from the design phase. According to the two brothers, a new kind of product designer, to which they claim to belong, is a necessary prerequisite.

Alternative solutions

In their view, it is entirely possible to retain the current concept while expanding the range. Geographical expansion still offers potential, although the opening of their first store in New York proved to be a costly experience, as they didn’t stick to their own principles. They opened a store before they had a distribution network and Freitag brand ambassadors. Even though this experiment was unsuccessful, they are not giving up on this American dream, as their concept perfectly meets the environmental preoccupations of city dwellers, particularly in the western United States. On the other hand, business is particularly good in Asia. However, their ecological concept needs to be transposed to another business area, not least because of increased competition in the “recyclable bags” sector and the fact that customers do not yet sufficiently identify with the Freitag brand.

Warning

Every new project is a bold challenge for a small family business like Freitag. It is imperative that the company maintains its brand image, which is modern, responsible, and environmentally conscious. Contrary to their early days, when they acted with the carefree attitude of start-up bosses, the two founders are now faced with major challenges. Although the Freitag brothers have sought outside know-how for their diversification, they are fully aware that their original strategic business of “recyclable bags” could suffer if major difficulties arise.

Questions: Based on the example of Freitag

1. Give examples of potential for success.
2. In your own words, explain the term “strategic business area”
3. How does it differ from the term “strategic business unit”?
4. Why do you think strategic diversification is necessary for Freitag? What type of strategic diversification is involved?
5. What are the positive and negative effects of such diversification for Freitag?

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When a leader is stuck on a problem, it often helps to step back and look at the bigger picture. To see things differently and discover new solutions. *There's a very good reason why people at the center of driving digital transformation favor a "holistic" approach — a term often used in the medical space. A holistic approach, for example, to digitalization is an interesting way to achieve the necessary breakdown of silos to develop adaptable future-proof solutions. And, of course, as with holistic medicine, this approach forces us to leave the beaten track.* In medicine, the term "holistic" encompasses the idea that our bodies are interconnected systems and can be explained only by looking at the whole, rather than its individual parts.

View from the media: Boeing's \$4.7bn Spirit deal sparks fears over future of Belfast jobs

Financial Times, July 2, 2024 by Jude Webber and Sylvia Pfeifer

Politicians and union leaders warn against dismantling the aircraft supplier in Northern Ireland as Airbus considers options

Politicians and union leaders warned against dismantling Spirit AeroSystems in Northern Ireland after Boeing's \$4.7bn purchase of its former supplier left the region's biggest manufacturer in limbo. Alongside Boeing's acquisition of Spirit announced on Monday, Airbus has separately agreed to take over the production the supplier does on its behalf for its A220 and A350 programmes at four plants in the US, France, Morocco and Belfast. Spirit has six Belfast plants that make wings and fuselages, the main body of the plane, for Airbus A220 jets. But the loss-making Northern Irish operation also makes fuselages and other parts for Bombardier's business jets plus components for Rolls-Royce and Honda Aircraft, which are all left out of the complex deal and have no immediate buyer. Spirit said on Monday it would look to sell these, as well as operations in Scotland and Malaysia that support Airbus programmes. Steve Aiken, deputy Speaker of Northern Ireland's Stormont assembly and a member of the Ulster Unionist party, feared integrated operations in Belfast, including research and

development, risked being sacrificed if the operations were broken up or transferred elsewhere. “That’s the value-added and that will be split up by dividing the company,” he warned. Splitting the business would pose practical problems and leave 60 per cent of workers not involved in Airbus production in limbo, said the GMB union. “It’s a holistic operation — there’s a lot of interdependence” with some workers employed on both Airbus and other contracts, said Alan Malcolm, a senior GMB union representative, who did not rule out industrial action. Northern Ireland is a supplier to many of the world’s aerospace and defence programmes, and the sector, with £1.9bn in revenue, employs more than 10,000 people, including in supply chains.

<https://www.ft.com/content/6ab533f8-9115-4048-90eb-a1618971ea5e>

4.1 Problem Situations

It should be clear by now that any problem-solving methodology has to be designed for complex situations. Classic decision-making theory, with its analytical techniques and methods, alone is not in a position to provide corporate management with the desired support. An evolutionary, cybernetic problem-solving methodology should be used and constantly developed further (Malik 1996, 345ff.). This systemic way of thinking attempts to combine analytical and synthetic steps. Analytical and synthetic steps are important because a marked shift is perceptible in today’s enterprises, away from simple and complicated problems toward complex sets of issues (Figure 4.1).

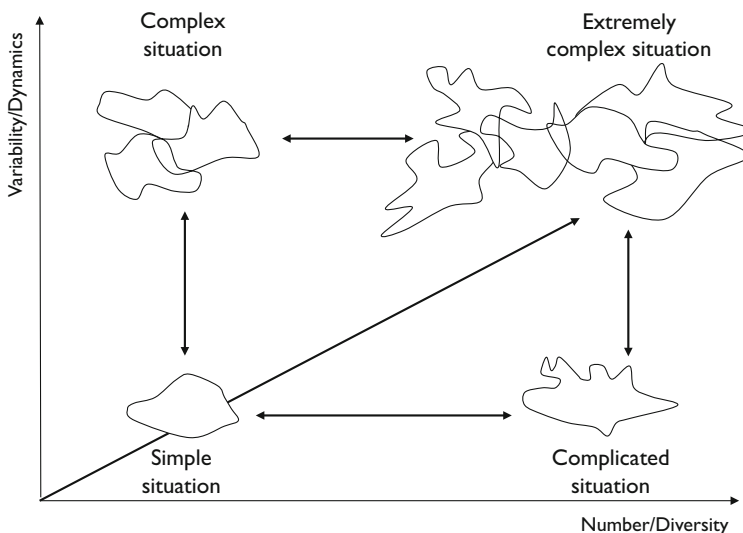


Figure 4.1 Problem Situation
Source: Based on Ulrich/Probst (2001)

For example, the fact that global markets are now open to the enterprise may mean that new competitors suddenly appear in the domestic market, substitute products challenge the enterprise’s market position, or cheap-end suppliers dictate prices. Market constellations are changing faster than ever, demanding an entirely new way of thinking and acting from executives. The shift makes it clear that enterprises and the management studies devoted to them have to deal more and more with complex challenges. That complexity is measured based on variety. A further helpful criterion in distinguishing simple from complex situations is their dynamics.

Example

Actions within budgeting, staff assignments, routine handling of customer requests.

Complicated problems are characterized by a large number of different factors of influence which are relatively strongly related. The interaction of the various components can be predicted and organized, which means that the dynamics are low. In such cases, a number of problem-solving methods are available that can be used to achieve the optimum within certain constraints. For example, tools to solve complicated problems have been developed in the discipline of Operations Research. These include the decision tree method, the PERT system, or dynamic investment calculation. PERT (Program Evaluation and Review Technique) was developed as a network planning technique and is applied in projects with a high level of uncertainty and low level of experience. It shows the time dependencies over the course of projects. ◀

Simple problem situations are characterized by a small number of factors of influence that have only a weak correlation and low dynamics. These problems follow a simple cause-and-effect relationship and can generally be resolved from personal experience using simple problem-solving models.

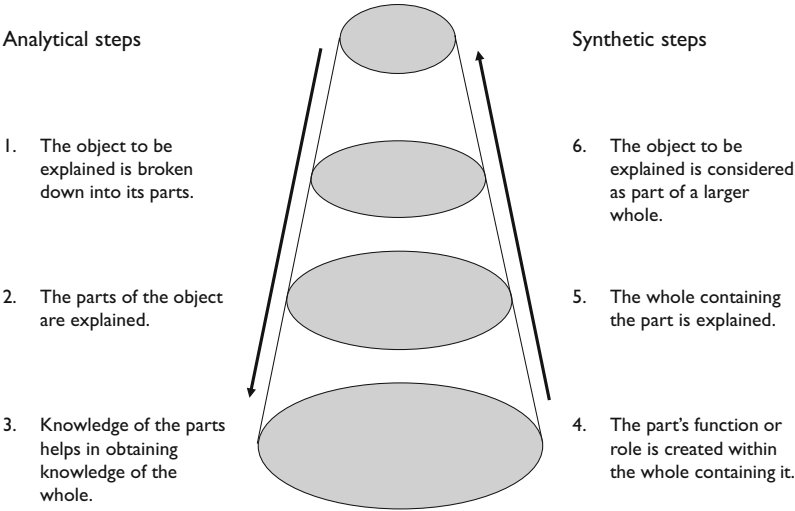


Figure 4.2 Systemic Way of Thinking

Example
Preparing the annual budget, organizing logistics

In contrast to complicated problems, complex and extremely complex problem situations are characterized by a variety of strongly related factors of influence and whose relationships are constantly changing. Complex situations have a life or a dynamic of their own, so constantly new patterns and changing constellations occur. Such problems cannot be effectively resolved with traditional methods. Holistic problem-solving approaches are needed that can capture the entire integration and dynamics of a problem (Gomez/Probst 1997, 11ff.). ◀

Example
Ecological problems, global markets, new lifestyles

Decision trees, ROI (return on investment) analyses, warehouse optimization models, network plans, etc., are therefore no longer serviceable. Human thinking no longer appears to be able to keep pace with the complex problem situations that can arise. It was proven long ago that the human brain only produces forms of conception that are simplified adaptations to the structure of the world. We can capture our world only through a narrow window, and although this offers vital snippets, it often proves impossible to reflect the objective complexity of the various interrelationships we have with our environments. ◀

4.2 Consequences for Holistic Problem-Solving

Several errors are made in connection with complex problem situations. For example, Gomez/Probst (1997, 16-17) mention the following errors of logic:

1st logic error: Problems exist objectively and only have to be clearly formulated.

- The point of view of an observer has to be taken into account: Different stances have to be adopted, and definitions have to be made.
- A situation has to be constantly reconsidered and captured from as many different aspects as possible.

2nd logic error: Every problem is the direct consequence of one single cause.

- Networks have to be mapped out and scrutinized.
- Relationships, interactions, and circuits have to be captured and analyzed.
- Networks have to be understood in terms of their individual attributes and as a whole.

3rd logic error: A “snapshot” of the current situation is enough to understand a situation.

- Stabilizing and destabilizing relationships, interactions, and circuits have to be captured.
- The strength, importance, and qualitative characteristics of these relationships, interactions, and circuits have to be analyzed.
- The time aspects of a situation have to be incorporated into the considerations.

4th logic error: Behavior can be forecast; all you need is an adequate information base.

- You have to be sensitive to the system’s behavioral options.
- Possible future “models” or scenarios have to be developed.
- The opportunities and threats, strengths and weaknesses in the various contexts have to be reconsidered and evaluated.

5th logic error: Problem situations can be “controlled”; it is just a question of the effort.

- The possible, controllable, and non-controllable aspects from the point of view of the observer must be carefully identified.
- The relationships with other parameters have to be recorded.
- Strategies have to be designed to make sense and lend meaning to the context.

6th logic error: A “doer” can implement any problem solution in practice.

- The laws of the system in which the intervention is being made must be considered.
- Forces and specific attributes of the system have to be used.
- Something has to be made to happen at the right time and in the right place.

7th logic error: The problem can be shelved permanently when a solution is introduced.

- The development of the situation has to be monitored.
- Problem-solving has to be designed to allow maximum flexibility and learning capabilities.

The errors of the logic described above demand a holistic means of problem-solving that enables the problem-solver to handle complex problems despite what might be their analytical, reductive way of thinking. Holistic approaches mean that certain demands that might arise from these errors of logic can be avoided. A number of requirements can be derived from the errors of logic outlined here, which can be avoided with holistic approaches.

Consequences for holistic problem-solving:

1st logic error: Define the problem. The situation has to be defined from a variety of points of view, and an attempt must be made to integrate them into a holistic definition.

2nd logic error: Determine the networking (level of integration). The relationships between the elements of a problem situation have to be captured and their impact analyzed.

3rd logic error: Capture the dynamic. The time aspects of the individual relationships and the situation have to be determined. At the same time, the importance of the relationships in the network has to be captured.

4th logic error: Interpret the behavioral possibilities. Future development paths should be worked out, and their options should be simulated.

5th logic error: Determine the control possibilities. The controllable and non-controllable aspects of a situation and those aspects that require monitoring should be mapped out in a steering model.

6th logic error: Design control interventions. Following systemic rules, the control interventions have to be determined in such a way that they can be made in a situation-specific manner and with the optimum effect.

7th logic error: Develop the solution further. Changes in a situation must be anticipated in the form of solutions that are capable of learning.

4.3 System Methodology Approach

Solving problems of wide variety and complexity is part of any executive's average working day, regardless of whether they are engaged on the meaning level with questions of corporate policy or in operational interests in a specific production department. The difficulty of solving these problems varies widely depending on various factors, such as the level of experience and information, the scope and importance of the problem, or the transparency of the enterprise-specific context, etc. However, a systematic approach is always of supreme importance. The methodology described below integrates the system theory thinking of this chapter and underpins it with the meta-level of decision-making methodology: analysis — conception — implementation.

- **Analysis:** Determination and formulation of the problem Formation of a steering model of the problem situation
- **Conception:** Development of problem-solving strategies
- **Implementation:** Introduction and monitoring of the problem-solving concept

These phases, in turn, can be structured using some sub-points, which are treated in more or less detail, depending on the complexity of the problem.

Phase 1: Analysis — determination and formulation of the problem

All problems must first be defined. Often, however, at this initial stage the real problem gets overlooked; instead, difficulties that are in fact merely symptoms of a deeper problem are wrongly identified as being the problem itself. These symptoms divert attention from the actual problem. The challenge therefore lies in recognizing the connection between the symptoms and the actual problem. To identify the actual problem, the operational problem level must be separated from the management problem level at the definition stage.

One suitable tool for the operational problem level is the feedback diagram, which relates various parameters to one another and indicates the effect that changes in these parameters have on the others. The plus sign shows an influence in the same direction, and the minus sign is a counteractive one.

Case example

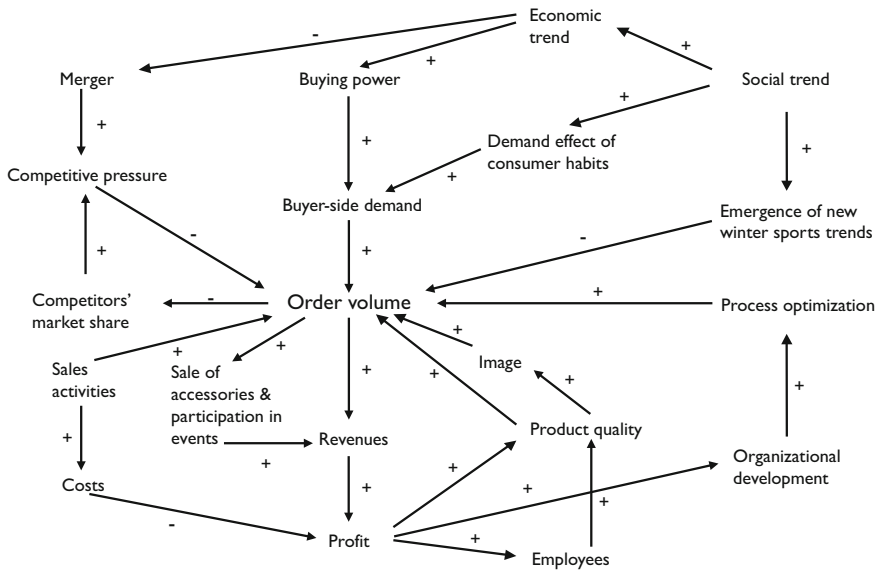
System methodology on the basis of a Freestyle Ski Company

The ski company at the center of this case is divided into the Skis, Accessories, and Events divisions. In the Skis division, the company is struggling with sharp fluctuations in its order intake, which could indicate unfavorable shifts in its market share. The team of entrepreneurs is now wondering how it might counter this development and how it should go about it.

Problem definition

The order fluctuations must be set in the wider context of market and internal parameters on the operational problem level, and the interconnections must be illustrated. Describing these relationships may help the team to locate the actual problem. Social developments that are leading to a rise in new winter sports trends may be pinpointed. On the management problem level, problem areas may be revealed, for example, based on the previously mentioned management functions (organization, planning, employee leadership, and control) and the factors influencing order growth).

Integrated View of Order Volume:



The planning function, for example, can be divided into long-, medium-, and short-term planning levels with different sub-activities. Potential problems can be highlighted specifically (cross-hatched in dark grey) and then analyzed in detail. On the management problem level, the team of entrepreneurs examines the identified difficulty of fluctuating order intake in the wider context of all management activities in the Skis division. The classification of the planning function into short-, medium-, and long-term decisions helps the team to ensure coordination between the basic corporate objectives

and their implementation. A definition of a problem is produced on the basis of the diagrams: the existing control system for order growth is inadequate because it's only partly monitored, and there is practically no early warning system. ◀

Phase 2: Analysis — a directive model is developed

The system method must aim to interpret and shape the problem in such a way that the problem solver can influence it with his own directive competencies. The following questions have to be answered to determine these competencies, i.e. possibilities:

- What indicators show an unfavorable trend in the problem situation and, therefore, have to be monitored? (1)
- What aspects of the problem situation can I influence or direct? (2)
- What aspects are outside my area of influence? (3)
- What strategies do I pursue when certain developments occur in the monitored indicators? (4) = Feedback
- What preventive measures do I take in relation to certain developments or aspects outside my area of influence? (5) = Feedforward
- How do I measure how much to put into the implementation of the above strategies and preventive actions? (6) = Fine-tuning

Example

System methodology based on a freestyle ski company

Directive model

The ski company then tries to generate a directive model to address the problem of the inadequate order intake control system. The team of entrepreneurs is aware that the perspective from which it considers the problem will be decisive for any outcome. As leaders of a fast-growing company, corporate management has decided to build a system that will enable it to recognize and combat mistakes and risks relating to the fluctuation of order levels in good time.

The directive model they present takes questions 1-3 into account, i.e. the indicators and influenceability. Once the basic relationships have been illustrated, the principles of feedback and feed forward and the fine tuning of execution have to be implemented. Every control system starts with the feedback principle. It strives to return to a desired state those indicators where intolerable differences occur. Tools in the form of measuring devices, decision-making rules, and problem-solving strategies are needed here.

The measurement shows the quantitative development of the indicators. The decision-making rules compare the measuring results with the targets, and in the event of critical differences that might arise, they trigger certain predetermined problem-solving activities. These may be drawn from a pool of potentially adequate strategies that have been established even before a difficulty first occurs.

Directive model — feedback

Every early warning system is likewise based on the feed-forward principle. Here, the development of the non-controllable aspects is shown; decision-making rules determine when a risk is imminent and has to be addressed. An accumulation of prepared strategies then offers various problem-solving approaches.

Directive model — feed-forward

The principle of fine-tuning is fundamental in so far as the implementation of problem-solving strategies can be optimally monitored. If, for example, a strategy is implemented in small steps, this mechanism measures performance by the trend in the indicators until the target of the decision-making rules is met. ◀

Phase 3: Conception — develop problem-solving strategies

Generally speaking, existing structures and tools should be challenged when developing possible strategies. In addition, it is interesting to know how far these can be used for the planned project (control and early warning system) in the context of the directive model. The aim is to achieve tools with meaningful and clear numbers attached. They enable the implementation of “management by exception” (response to indicators’ differences from the given targets). In a further step, these targets must be fine-tuned in the introduction of the control and early warning system by determining how sensitively the system has to react to disruptions, how quickly a reaction has to take place, and how much precision of effect is needed.

Example

System methodology based on a freestyle ski company

Develop problem-solving strategies

The ski company already has extensive statistics and tools, particularly in the areas of cost monitoring and market and competitive analysis. However, these need to be modified. The most significant weakness in the existing tools lies in the fact that while information is available, it is mostly in the form of absolute figures.

The following have to be determined in order to fine-tune the targets:

what percentage change in the order intake for skis is regarded as a random or seasonal fluctuation;

how quickly can the pre-programmed interventions be carried out;

what targets should be set for the effects of the interventions? ◀

Once more, we need to distinguish between the operational and the management level. While the area where differences in the indicators can no longer be tolerated and actions are needed is determined on the operational problem level, the criteria used to determine the necessary quality of the control and early warning system as a whole are specified on the management problem level. Both types of targets are, however, essential to the next steps in the system methodology.

Phase 4: Implementation — introduce and monitor the concept

In the last phase of the system methodology, the information needed for the control and early warning system must first be gathered and structured, and a pool of strategies put in place. Second, the stability of the system has to be guaranteed by thorough planning and constant monitoring.

Many questions have to be answered when setting up the control and early warning system. For example, how regularly should the data for comparative analysis be gathered? What data gathering and analysis steps can be computerized? Who is responsible for looking after the system? The system methodology cannot really answer these questions, but it can be used to implement the actual system. This recursively in the application of the system methodology should lead the problem solver to model the implementation of the control and early warning system according to his competences. In designing and monitoring the control and early warning system, functionality should be constantly examined.

Summary of the system methodology

The following phases and steps can characterize the system method of solving management problems:

Phases of system methodology		Steps in system methodology	
1.	Determine and formulate problem	1.	Derive problem from symptoms
2.	Create a control model of the problem situation	2.	Select a suitable control structure
		3.	Determine purpose of targeted solution
		4.	Develop control model
3.	Develop problem-solving strategies	5.	Perform strengths/weaknesses analysis of existing structures/tools
		6.	Define objective
		7.	Elaborate details of problem-solving concept
4.	Introduce and monitor problem-solving concept	8.	Implement solution found
		9.	Design monitoring system

Table 4.1 Overview System Methodology

The individual steps of this system methodology do not have to be completed exactly in this order. Instead, depending on the situation, a step may have to be repeated or several steps completed in a rough or highly detailed form. The application of the system methodology is intended to support management processes for better problem-solving. And while problems can also be solved without this methodology, a system method tool can often provide fresh stimulus as it simplifies the process and identifies more comprehensive solutions faster.

4.4 Synthesis

The discussion of system theory and cybernetics can be boiled down to a small number of basic elements that are key to a holistic view of corporate management. Controlled interventions by management are considered necessary, even though the basic strategy of cybernetic management favors self-regulation and self-organization (Malik 2016). This can be explained by the fact that self-regulation and self-organization are built into the structures of natural systems, in direct contrast to those of technical or social systems. Enterprises are organized so that, where possible, they can manage and regulate themselves. Yet, it would be wrong to believe that everything can be organized in such a way that it will organize itself. The principles of self-organization and self-regulation should be applied where possible and practical. Other steering and regulatory mechanisms should be used if it is not possible.

**View from the media: Business leaders must understand Vuca and Spofs —
Old commercial certainties have yielded to ugly acronyms.**

Financial Times, January 18, 2023, by Gillian Tett

A dozen or so years ago at a Davos World Economic Forum, I first heard of “Vuca”. The ugly acronym of US military origin stands for “Volatility, Uncertainty, Complexity and Ambiguity”. Before the 2008 financial crisis, these were not especially familiar words at Davos. Attendees saw globalization, free-market capitalism, and democracy as self-evidently good things that drove the future, at least in the West. Vuca was primarily a poor-country problem. No longer. The 2008 crisis undermined the cult of free-market orthodoxies, showing the dangers of excessive deregulation and unleashing a once unimaginable level of government intervention into finance. Subsequent years of quantitative easing further damaged conventional beliefs by distorting the price of money. Events such as the Covid-19 pandemic and the 2022 energy crisis caused yet more government intervention. Democracy has been shaken by rising populism in the US and Europe, and intensified autocracy in countries such as China and Russia. In a 2022 survey by the non-profit think-tank the Bertelsmann Foundation, the number of non-democratic countries eclipsed democratic ones for the first time since 2004. Globalisation is in retreat, too, amid rising protectionism, nationalism and military conflicts such as the Ukraine-Russia war. Members of the Davos elite face a world that seems more uncertain and unstable than seen in their lifetime. Call it, if you like, Vuca squared.

How should they respond? One place to start is pondering a second ugly acronym: Spof, or Single Point Of Failure. The term was developed by civilian and military engineers to describe risks that arise when a complex machine or system relies on a single cog, node, or conduit. It used to be invoked in relation to small-scale structures (say, if a car can only operate if a circuit works). But, these days, Spofs

are a macro problem, too. That is because, in the early days of the 21st century, there was so much faith in free markets and globalisation that the global economy became tightly interconnected — increasingly dependent on concentrated financial and trade flows, and nodes. www.ft.com/content/0f2aae9d-4e96-416c-8142-d03d993726b0

In this context, the function of corporate management must naturally be clarified. Seen from a holistic point of view, different functions are attributed to management:

- The handling of complex management situations using a system of problem-solving processes
- The design, direction, and development of the enterprise as a social system
- Management on the operational, strategic, and normative levels
- Constantly dealing with environmental relationships
- Management as social functions

The functions of development, design, and direction are distributed across the different management levels according to where their main focus lies. Executives' functions differ depending on, among other things, their time horizons, the level of concrete detail on which they operate, and the tools used. The functions can be assigned to the normative, strategic, and operational management levels (Figure 4.3).

Normative management determines the superordinate values and behavioral norms. The top management, which is primarily responsible, sets the guidelines and moral standards for the enterprise and establishes its ethical principles.

Strategic management determines the enterprise's fundamental, longer-term objectives and performance potentials. It lays down long-term, holistic action programs for concentrating the enterprise's energies on success potentials whose building and maintenance will create the competitive advantages that give the enterprise the scope to achieve its objectives and to develop and grow. Like normative management, strategic management has a strong element of having constantly to deal with environmental relationships. Strategic management occupies an intermediate position in the total complex of corporate management tasks, embedded in both normative and operational management.

Operational management encompasses all functions needed to achieve the targeted results, for example, in product marketing: technical further development, purchasing, logistics and production, distribution, supporting marketing activities, etc. As a rule, these functions are also present in small enterprises. That is, specific persons are responsible for them.

From a holistic point of view, management must also be seen as instrumental (Malik 2016). Management needs the competence to control a system of problem-solving processes with the right tools. As in any profession, the use of tools is decisive for success. The manager has to use a wide variety of management techniques and tools in various technical and functional areas and in various forms. Management techniques contribute to corporate management's problem-solving and help to control the complex system. A

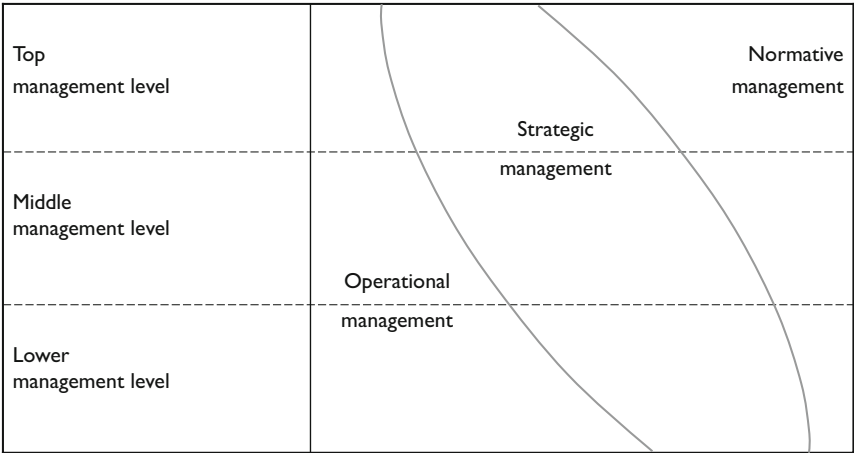


Figure 4.3 Management Functions and Levels
Source: Based on Ulrich/Probst, 2001

comprehensive arsenal of methods is always supplied by finance and accounting, with its subordinate functions of bookkeeping, balance-sheet accounting, cost accounting, costing and cash flow accounting. In addition, there are many tools, some recently developed, which go beyond the traditional accounting approach. Both an exhaustive list and a satisfactory classification appear virtually impossible. The reason why it is difficult to arrive at a generally valid classification seems to lie primarily in the complexity and dynamics of management processes.

Management techniques often confront employees with the problem that although different managers apply similar techniques, they are called by different names and are poorly coordinated. It is extremely helpful when the enterprise creates a method bank so that clear-cut application can be achieved. An attempt at systematic classification shows the following overview, which follows the decision-making process and distinguishes between eleven categories of management techniques, each with different tools (Gray et al., 2010).

I. General models - Simple decision-making model - Phase model (organization) - System engineering (organization/information technology)	5. Forecasting techniques - Delphi method - Scenario technique - Statistical extrapolation methods - Regression analysis - Simulation models	9. Persuasion techniques - Presentation technique - Negotiating technique - Elevator Pitch
2. Data gathering techniques - Question and answer techniques - Questionnaire - Interview - Document analysis - Observation – Assessment Center (AC) - Quasi-objective method	6. Assessment techniques - Scoring models - Benefit analysis - ROI analysis - Ecological risk analysis	10. Analysis techniques - Checklists - Integrated thinking - Portfolio analysis; positioning method - Strengths/weaknesses profile - Opportunities/threats profile - SWOT analysis - ABC analysis
3. Group techniques - Group contract - Facilitation/moderation technique	7. Decision-making techniques - Mathematical decision-making models - Decision tree - Import & Export-Matrix	11. Management techniques - Time management - Management by Objectives - Balanced scorecard - EFQM
4. Creativity techniques - Morphology - Brainstorming - Method 635 (Brainwriting) - Syntectics - Mind mapping - Fishbowl - Roleplaying - Storyboarding - Graphic Gameplan	8. Presentation techniques - Organization charts - Function diagrams - Job descriptions - Network planning - Bar diagram, Flowchart	12. Exploring techniques - Business Model Canvas - Lean Canvas - Force Field Analysis - Value Mapping

Table 4.2 Overview of Selected Management Techniques

Chapter Appendix

Key Takeaways

- Systems theory and cybernetics are critical to a holistic approach to business management.
- It is helpful to better classify several management methods in order to understand their use at different levels of management.
- Leaders must use various management techniques and tools in various technical and functional areas and in various forms.
- Problem-solving methodology needs to be adapted to complex situations. Analytical steps alone are not appropriate for solving complex problems.
- A systemic methodology makes it easier to solve complex problems. This involves identifying the problem, modeling it, developing resolution strategies, and implementing an early warning system that trades and feeds back information.

End of chapter questions

1. Explain the terms “controllable and non-controllable parameters” using the example of an enterprise.
2. In order to understand relationships and fields of tension, it is essential to depart from linear cause-and-effect thinking, whether for organization charts or for the structure of business studies. What other type of thinking is required, and why?
3. Fundamental errors are made in connection with complexity. Explain four errors.
4. Please answer the following questions that arise in the development of design and directive options for complex problems:
 - Are the non-controllable parameters in a small business different from those of a large one? Give reasons for your answer.
 - Comment on the following statement: “Before we deal with the directive options, we have to clarify the question of which management level we are starting from.”
5. What circumstances are responsible for making it more and more difficult to capture the controllable elements? Assess this question from the point of view of an airline, e.g., Singapore Airlines or Lufthansa.
6. Explain the principle of feed-forward, using an example of your choice.

View from the media: Why Daniel Borel wants to get rid of Logitech's president

Daniel Borel, the Swiss-based company's largest individual shareholder, is demanding President Wendy Becker's departure. But Logitech's problems run much deeper. PME Magazine, Stefan Barmettler, 21.09.2023

Daniel Borel is Mr. Logitech. He co-founded and ran the Swiss-based company, which has specialized in computer peripherals for years. He is its largest individual shareholder, with 1.5% of the shares. However, the technology pioneer has seen the value of his stake fall drastically over the past two years. At Logitech's Annual General Meeting on September 13, he demanded that Chairman Wendy Becker step down by spring 2024. A few minutes before his vote, she had been confirmed in her post with 96.5% of the votes. If Daniel Borel had presented his request to investors before the vote, it is unlikely that Wendy Becker would have obtained such a flattering result. The company's results do not speak in her favor: sales are down, the operating margin, which was in double digits, has fallen to 5%, and the share price has stagnated for the past two years. Personnel problems of all kinds are added to this. And the chairwoman's behavior seems less than enterprising.

Numerous personnel problems

“Logitech has taken care of itself a lot over the last two and a half years,” Wendy Becker declared in an interview with Bilanz in November 2021. This was also a self-criticism. She has been President since September 2019 and chairs the Nomination and Compliance Committees. Therefore, she is the most powerful person in the company and has clearly

been looking after herself for far too long. In the middle of last year, the Board of Directors finally matured the plan to elegantly replace the permanently optimistic Bracken Darrell. Spoiled by years of success, the long-serving CEO was at the end of his tether, no longer providing the impetus. He caught wind of the project in the spring of 2023 and set about finding an honorable way out. This summer, the American bid an abrupt farewell and took the helm of fashion group VF Corporation. Wendy Becker was fooled.

From videoconferencing to cybersecurity

Over the past few months, things have been getting out of hand at the Vaud-based group. So far, President Becker has done little to calm the situation. Bracken Darrell's resignation clearly caught her unawares, even though potential candidates had already been considered. The fact that she had to announce a profit warning in January 2023, which was poisonous for the share price, didn't inspire enthusiasm either. But here's the thing: if someone had intervened earlier in the company's orientations, this value-devouring step could have been avoided. As it turns out, Wendy Becker acts hesitantly and struggles to make decisions. Yet the situation had been clear for at least a year and a half: Bracken Darrell was no longer interested in managing the crisis. Under his leadership, Logitech had benefited from the boom triggered by the pandemic, with telecommuting and long evenings between four walls.

Clearly, the CEO and president were dreaming of eternal growth in mice, videoconferencing, games, and headsets. What they didn't realize was that by autumn 2021, the sales boom would come to an end. The crank reversal affected the entire entertainment sector, not just Logitech, as confirmed by Alicia Reese, industry analyst at Wedbush Securities. In addition, priorities have shifted. Corporate IT spending is increasingly shifting from videoconferencing to cybersecurity, an area in which Logitech is not active. For the company, the good old days seem to be over. At the same time, as the clouds gather, Logitech's headcount and operating costs continue to rise. The results were felt this spring: sales fell by 16% and earnings per share by 36%. Admittedly, the company recently announced 300 job cuts, but with almost 8,000 jobs, the cost base is probably still too high.

Passivity and denial

Daniel Borel is convinced that this descent into hell could have been avoided if Logitech's president had put her foot down earlier. The major shareholder cannot be blamed. He is said to have warned Wendy Becker of the coming business downturn in several meetings, most recently in November 2022. In retrospect, his judgment is unflattering: "The Chairman of the Board was in denial and far too passive." Now she's paying the price: former CEO Bracken Darrell's interim successor is still in office, and there's no solution in sight. No great leaps are to be expected in this interregnum, although Logitech is sitting on 800 million CHF in cash and high-tech companies with potential are currently cheap. Logitech does not wish to comment on specific issues but welcomes Daniel Borel's feedback. This should not be the case.

End of chapter discussion: Holistic digital transformation: How to master the change

Swiss Re, by Pravina Ladva, Chief Digital & Technology Officer & Antonio Grasso, Entrepreneur, Technologist, Founder & CEO, published on August 19, 2022

Please discuss the consequences of the following article when making strategic decisions: Taking a holistic approach to digital transformation in the insurance industry makes a lot of sense, given that simply tackling isolated challenges may prevent us from making the most of new technology. What seems a bit like a fad could be a useful approach to harnessing new technologies. If I go to the doctor because of a backache, I get a bit suspicious if the doctor merely prescribes medication before asking about factors that may be contributing to the pain, such as lifestyle or daily routines. Even though taking medication requires less effort, the back is a complex system of interconnected bones, muscles, and nerves. Exercises to strengthen my back and improve my posture may deliver longer-term results.

This reflects a sustainable, “holistic” approach — tackling the root cause of the problem, rather than just the symptoms. Taking such an approach in business means that we must consider all parameters simultaneously instead of solving an isolated problem.

A holistic approach allows a shift in risk-scoring models. Take, for example, our holistic suite of Automotive & Mobility Solutions. The cars of the future will be connected, autonomous, shared and electric (this is the “CASE” strategy that virtually all car manufacturers have been following for the past decade). That’s why our products are designed to empower insurers to shift motor risk assessment to a holistic view that includes vehicle scoring, driver scoring and contextual factors (the environment surrounding the journey).

As vehicles evolve with increasing driver assistance features towards semi and eventually full autonomy, our vehicle scores help insurers incorporate newer features quickly and dynamically into their products. Our telematics and connected car-based motor solution Coloride, developed together with Movingdots, allows for continuous driving behavior and contextual monitoring, enabling insurers to help improve customer safety as well as underwriting and pricing accuracy.

Faster feedback and partnerships contribute to success. Luckily, the tools that accompany digitalisation have made it much easier to assess customer behaviour and get feedback from clients to evolve and iteratively develop solutions. Additionally, adopting a holistic approach to digital transformation often means that involving different partners is a prerequisite for the success of new digital market models such as ecosystem and platform business. Platforms allow insurance carriers around the world to join data-rich customer ecosystems with supply and distribution partners from outside the insurance industry.

More time consuming but more sustainable: A holistic transformation will never lead to a fixed, rigid business model, but rather one that can adapt to change, and which creates value through different kinds of partnerships. Although it may seem like an arduous process at first — like doing exercises for back pain instead of taking medication — taking a holistic approach can lead to more sustainable outcomes and solutions that are adaptable to fast-changing business environments and customer behaviors.

Although the concept of “holism” can be traced back to Aristotle’s *Metaphysics* (i.e., “the whole is more than the sum of its parts”), the term didn’t make its way into common language until 1926 — with the South African statesman Jan Smuts’ book *Holism and Evolution*. Moving beyond its philosophical and political roots, I tend to view holism through a more modern lens. In my experience, holistic thinking and business practices rely on achieving a functional synergy and maintaining an awareness of the fact that the properties of a system should not be created based on their individual parts — no matter how distinct or defining they may appear. In businesses that innovate through digital mediums, platforms, and processes, holism and synergy go hand-in-hand to create value.

Data will play increasing role in change management. From a corporate perspective, to confront — if not embrace — a digital transformation, the leadership must strategically identify the high-level objectives and then distil them throughout the company via specific projects. In the process, it is vital to assign key performance indicators (KPI) to measure the change and course-correct, as needed. I encourage leaders to consider their companies as a single organic whole that requires central orchestration and synergy at the operational level, and that promotes the cooperation and collaboration of all units so that the overall performance is greater than that of any individual *performer*. To that end, data will play an increasing role in change management and holistic transformations.

Failing to capitalize on data could mar the fate of an entire transformative process. After all, the value of data is about more than drawing deductions, insights, and supporting decision-making. It is being embedded in the operating instructions for new probabilistic algorithms that use the artificial intelligence paradigm to perform key operations. We are using training datasets to teach AI software how to perform a feature; hence, data became instruction for new generations of software.

Simultaneous view on the “big picture” and individual elements. Good data literacy, when combined with excellent data governance, can reveal the “big picture” and each individual element that is required to support an efficient and effective digital transformation. By synergizing data on a given driver and a vehicle’s history — their personal data — we can determine not only what the driver is doing *now* but what they *will* do.

By fusing the two data sets, we can create a much more sophisticated risk profile — one that can be obtained in real time. Of course, this is just starting to become possible thanks to innovations in digital technologies that have opened up new strategic and operational scenarios. By creating a visionary strategy, reinventing the employee experience, becoming a data-powered enterprise, connecting systems with processes, reimagining the customer experience, cooperating with other companies by creating a fertile ecosystem, and never forgetting to incorporate purpose and sustainability as a core part of the business, leaders can embrace holistic thinking that will benefit every level of their organization.

As I see it, the greatest change agent and opportunity to future-proof businesses, organizations, and companies is a holistic, inclusive, and sustainable digital transformation.

<https://www.swissre.com/risk-knowledge/advancing-societal-benefits-digitalisation/holistic-digital-transformation-how-to-master-change.html>

Case Study 1: Bcomp or flax fiber as a new technology

Bcomp (www.bcomp.ch) is a Swiss company founded in Fribourg in 2011. It manufactures high-tech composite materials based on natural fibers. The specifications of these products lie in their extreme lightness and their ability to offer a good balance between flexibility and strength. Bcomp aims to replace carbon and glass fibers with a 100% renewable material. The founders of this concept are Christian Fischer, an expert in composite materials, who is currently a member of the management team, and Julien Rion, an engineer, who is also an executive member. Two other founders have since left the company.

Bcomp's origins lie in the passion for skiing shared by its founders, who used to make balsa skis. This very light wood was worked and agglomerated with all their know-how, enabling the skis not only to be very resistant, but also to offer outstanding performance in terms of shock absorption and durability. This product has enabled Bcomp to make a name for itself, supplying the most prestigious ski manufacturers, such as Stöckli. At the same time, Bcomp has developed two other products made entirely from linen fiber: power-RibsTM and ampliTexTM. The first is a reinforcement mesh, and the second is a technical fabric. Both products offer high performance in terms of strength and weight when bonded together with a resin (often polypropylene). The resulting material is stronger (four times the shock absorption capacity) and lighter (30% to 50%) than carbon fiber.

By 2023, Bcomp's flagship products will no longer be wooden skis but flax-fiber components for mass-market cars. Bcomp's reputation in the sports world stems from the specialist knowledge of the company's founders. It was this reputation and knowledge of their own products that enabled them to penetrate the motorsport market. Several years of successful partnership and development with motorsports were followed by a number of automakers who saw the potential of Bcomp's products for their own industry. In 2020, Bcomp, with the support of Polestar, will set up a production center at Polytype in Fribourg. At this point, the challenge for Bcomp is to move from producing niche automotive parts for a hundred vehicles to mass production for a hundred thousand vehicles. In 2022, BMW, Porsche and Volvo invested heavily in the Fribourg-based company to help it expand production. The first production, Volvo EX30, equipped with Bcomp parts, is scheduled for 2024.

In just twelve years, Bcomp has made a colossal leap in terms of target market and growth and the company now has over 80 employees.

Questions:

1. In just twelve years, what market diversification and product development strategies have Bcomp employed to move from manufacturing wooden skis to supplying advanced composite materials for the automotive industry on a large scale?
2. What methodological principles of change management and strategic pivot can be deduced from this successful transition?
3. How did Bcomp use its initial reputation in the sports industry, particularly in the manufacture of wooden skis, to successfully penetrate new markets, such as the automotive industry? What elements of reputation-building methodology and credibility transfer between industries can be identified in this case study?

Case study 2: Challenger Disaster

The final report on the Challenger tragedy, in which seven astronauts lost their lives in 1986, delivered new findings. Immediately after the disaster, technical weaknesses, i.e. rubber seals that had become brittle due to unusually low launch temperatures, had been blamed as the true cause of the catastrophe. These had evidently been unable to withstand the enormous pressure on launch, which was said to have led to a fuel leak and ultimately to the rocket's explosion.

The design flaws in these components were sufficiently well known both to NASA and to Morton Thiokol, the manufacturer. The seals were considered to be the highest risk among the potential causes of accidents during a rocket launch. To this extent, it is hardly astonishing that improvements to them were still under discussion just ten days before the launch got the go-ahead. Despite the less-than-perfect design of the part, the investigating committee found out that the first link in the chain that caused the disaster had to be seen not as a weakness in the technology but as human inadequacy. If the warnings of two engineers from Morton Thiokol in a videoconference (15 hours before the launch) had been taken seriously enough, the disaster could have been avoided. The two engineers explicitly pointed out the high risk of a launch at outside temperatures below 12 degrees Celsius. However, economic considerations prevented both the managers of Morton Thiokol and the US Space Authority from delaying the launch.

The crucial factor in the decisive turn of the debate on the launch approval was an argument from the Managing Director of Morton Thiokol that appealed to business sense: "Take off your engineering hat and put on your management hat". This statement ignored the concerns of his own engineers and was aimed mainly at securing future NASA orders. Morton Thiokol's top management swept away all the engineers' doubts as far as NASA management was concerned, and declared itself in favor of a launch. Morton Thiokol's consent to the launch approval went into NASA's decision-making process without the engineers' reservations being taken into account and rose up the decision-making ladder without the slightest mention of the sealing rings' problems at very low ambient temperatures. The extremely important information about the critical seals had been made to disappear. When the rockets were finally ignited on schedule at 11.38 am, the outside temperature was 3 degrees Celsius, exactly nine degrees below the level recommended by the engineers. What happened afterward went down in the history of space travel. And its causes — since the publication of the investigating committee's 170,000-page final report — will not be made to disappear that easily.

Question : Technical failure versus management failure

Explain the difference between simple, complicated, and complex problems using the example in this case study (Challenger Disaster), i.e., take concrete problems/sets of issues and explain the nature of the problem.

Case study 3: Red Bull or the tragic accident involving base jumper, Ueli Gegenschatz

The building which houses the Swiss headquarters of telephone operator, Sunrise, is called Sunrise Tower and is located in an industrial district of Zurich. It consists of a long, 25-metre-high plinth supporting two towers. The smaller tower measures 72.5 meters, and the larger, 88 meters.

This impressive and imposing building was chosen by Red Bull to launch its new cell phone subscription in Switzerland: Red Bull Mobile. The subscription is the result of collaboration between energy drink giant, Red Bull and telephone operator, Sunrise. Building on its success with extreme sports advertising, Red Bull launched the subscription with a spectacular jump from Sunrise Tower's highest tower. Ueli Gegenschatz, the world's best base jumper, under contract to Red Bull, undertook to make the jump. On the day, between 200 and 300 employees of the two companies gathered at the bottom of the tower. Cameramen were stationed all around the building, capturing the best images to promote the launch of the subscription.

The organizers also planned a major event to celebrate the spectacular jump.

Unfortunately, after launching from the highest tower, Ueli Gegenschatz collided with the smallest Sunrise tower. His parachute flared and Ueli Gegenschatz continued his fall without brakes. Two days later, he died of his injuries.

In a press release, the two companies expressed their deep regret at the accident and publicly offered their condolences to Ueli Gegenschatz's family and friends. However, this dramatic event did not prevent the two companies from launching the Red Bull Mobile subscription in Switzerland. Instead of this spectacular jump, the ad shows a montage of various vertiginous jumps made by other extreme athletes.

Red Bull continually aims to position itself as an energy drink in the entertainment world and among people with a taste for risk. Its advertising features are exploited all over the world. Recently, Red Bull was the official partner of Felix Baumgartner's parachute jump from space. The company is increasing its notoriety and popularity thanks to these spectacular images. Unfortunately, tragic accidents have occurred regularly. And after each fatal accident, the company has come in for increasing criticism.

The death of Ueli Gegenschatz is, therefore, not the first tragic death of an extreme sportsman taking part in an event organized by Red Bull to promote its brand. Red Bull's sponsorship contracts are double-edged. On the one hand, these athletes can easily make a living from their passion, but on the other, they are under enormous pressure to exceed spectacular limits.

Despite the drama generated by these media campaigns, Red Bull continues to sponsor such events worldwide.

Questions:

1. Develop a global solution approach for the Red Bull case. Start by identifying and delimiting the problem and propose a concrete approach.
2. What are the "uncontrollable" elements that could exert a major impact on Red Bull's advertising strategy?

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“All our dreams can come true if we have the courage to pursue them.”

Walt Disney

Organization is one of the key dimensions of the integrated management model. It is made up of the strategy, structure, and culture of an enterprise. From the system-based point of view, these basic components should not be considered in isolation: they form a unit. They are known as a “magic trilogy” because strategy, structure, and culture have to be in harmony since they are mutually dependent; for example, the development of a strategy depends on an enterprise’s structural and cultural starting position. To implement a new strategy, management will very likely have to adapt the structure and initiate certain cultural measures with a long-term impact.

Chapter 5 is devoted to strategy. The first part features a discussion of the basic principles of the strategic view, which was originally based on military strategic theory. Many military terms that are second nature in business today recall these origins: “competitive struggle”, “strengths and weaknesses”, “trade war” etc. However, it is only with certain caveats that the findings of military strategic theory can be extrapolated to companies: parallels are evident, but so are fundamental differences. Strategic thinking in an enterprise is significantly different from conventional approaches. Desired future target states are posited, and ways are sought to achieve them under the given current circumstances. Traditional corporate management, in contrast, has confined itself to the further development of current trends. Strategic success potential lies at the core of a strategic orientation. This means competitive factors that enable a company to achieve an advantage over its direct competitors that can- not be made up in the medium term or only with difficulty. Furthermore, the trend is to integrate purpose at the core of the strategy (Malnight et al., 2019).

Part two of this chapter explains the process of strategic management, first in a general overview and then in individual steps. The phases of strategic management are divided into information analysis, strategy conception, and implementation. These phases and their constituent steps are typically shaped by several strategic tools applied in the context of strategic decision-making.

View from the media: Starbucks needs faster service, not more complicated drinks

Financial Times, May 7, 2024, Opinion Lex

Customised coffee orders are holding up the line at Starbucks. Unicorn Frappuccinos and Iced Vanilla Chais with Matcha Sweet Cream Cold Foam take longer to pour than a medium roast. Starbucks believes the answer to its falling sales is to add even more choices to the menu. This is a problem. The Seattle-based coffee giant this month delivered a train wreck set of quarterly results. Same-store sales fell despite higher menu prices. The company took the axe to its full-year guidance for the second time this year. The stock shed nearly a fifth of its value within a week of results being published. Laxman Narasimhan, who took over as chief executive just over a year ago, blames long wait times and price-conscious consumers in Starbucks's biggest markets — the US and China — for the ugly numbers.

Narasimhan is accelerating the rollout of new equipment that will make it easier for baristas to prepare complicated drinks. The company plans to introduce new boba-inspired drinks and food items to attract weekend customers. It is looking to tap into late-night and overnight demand. But adding food and drink options is counter-intuitive if the goal is to reduce wait times. Starbucks's menu is already staggering. There are more than 170,000 ways to customise drinks, according to the company. Complicated drinks with multiple modifications come with higher prices, which means average ticket prices are rising. Modified drinks now account for 85 per cent of net beverage sales at Starbucks. The most complicated can be labour-intensive, becoming a source of frustration for baristas. They are one reason for the growing unionisation efforts at stores. Former boss Howard Schultz, who left the board last year but shared his lengthy thoughts on LinkedIn, argues that management needs to spend more time in stores (as well as backing "coffee-forward innovation"). In reality, the case for Starbucks to simplify its menu and focus on the basics is straightforward enough. The company makes half its US sales during the morning rush hours, when people are looking to get their caffeine fix on their way to work or school. These are dedicated customers that Starbucks cannot afford to lose. Too many of these customers — a mid-teens percentage of them — are abandoning the orders placed on Starbucks's mobile app because of long wait times and menu-item unavailability. Consumers, particularly occasional customers, are becoming more cautious with their spending. Given fierce competition from the likes of Dunkin' Donuts at one end and independent coffee shops at the other, keeping repeat customers happy is crucial.

www.ft.com/content/80aaf03b-7ab9-4350-9c82-1815eea9c7a7

5.1 Strategy Basics

5.1.1 Origins

Over the course of the last 50 years, strategy has become one of the most important guiding ideas of corporate management, although the term did not originally fit into the business world at all. The term strategy originally stems from the study of war (Kluge 1999). It is derived from the Greek word *stratos*, meaning “army” and, again, meaning “to lead, conduct”. The most important role in the development of strategy theory was played back in the 19th century by Prussian General, Carl von Clausewitz (1780-1831), who was the first person to establish a precise definition of strategy.

In his book “On War” (1972, 1st edition 1832), he views war as the continuation of policy by other means. He describes strategy as the use of engagements for the object of war:

“Strategy is the use of the engagement for the purpose of the war. It must therefore define an aim for the entire operational side of the war that will be in accordance with its purpose, i.e., it designs the war plan, and the aim will determine the series of actions intended to achieve it, i.e., it makes plans for the individual campaigns and organizes the individual engagements within these (...)” The strategic principles of conducting a war can be roughly summarized as follows:

- Your own forces should be optimally concentrated, and your own strengths should be used in such a way that they directly strike the opponent’s weaknesses.
- Accordingly, the battleground must be chosen in accordance with how your own strengths can be brought to bear as effectively as possible, and your own weaknesses, if possible, should have no impact, while the consequences for the enemy should be exactly the reverse.
- The element of surprise is very important.
- Organization and communication between the individual sections of the troops and their leaders are exceptionally important.
- Strategic objectives and resources must be carefully balanced.
- Innovations in equipment and in the way the war is conducted can create decisive advantages.

Clausewitz’s critique of contemporary war theory reveals interesting parallels with the situation in many of today’s small and large enterprises. At the time, it was directed against predominantly mechanical thinking. Clausewitz compares the work of the leader of an army to that of a clever politician.

In addition to Clausewitz, other military thinkers should be mentioned, including Frederick II of Prussia (1712-1786), Archduke Karl von Habsburg (1771-1847), Baron Antoine Henri de Jomini (1779-1869), and Sir Basil H. L. Hart (1895-1970).

In principle, however, doubt can be cast on whether insights from the conduct of war should, in reality, be transferred to the study of business management (Linnert 1971 20ff.). Clausewitz himself compared war to a trade transaction; examples can be found in the present day to indicate that close parallels are still seen — for example, when managers

are described as the “Kader” (literally the military “cadre”) of the Swiss economy, or when in some industries officer training promises a better chance of entry to top management levels.

Business literature is peppered with the vocabulary of war theory: companies battle for survival in the market, competitors are rolled up, market shares are conquered, information technology is used as a competitive weapon, positions are fought for, war chests are held and staff departments are implemented in an organization.

Military and corporate strategies follow the same methodological thinking by using empirical findings to arrive at basic principles that are then formulated as general rules. Both cases involve scarce resources (in the broadest sense) for which several interested parties compete. In order to possess them, the parties have to use other scarce resources in a targeted manner. A long-term view is essential for this purpose.

The differences, in contrast, are as follows:

- The number of friend-foe relationships is usually very large and impossible to oversee, even when markets are geographically separate. Every enterprise is a lone war-prior in an increasingly “entangled” environment — a symbol of complex and dynamic markets.
- Accordingly, the “war of the market economy” cannot be defined in either time or space, i.e., it has neither a clear beginning nor a targeted end; it is much more comparable to constant tension.
- There are a number of legal foundations: as far as violation of fundamental rights is concerned, society does not grant the individual entrepreneur the same rights as an army leader during a war. Competition in a market economy is determined by an external order that does not recognize exceptional circumstances.
- The number of options for action is much higher in the business field than in a war situation; the same applies to the resources to be used.
- Finally, one difference between the fields of application of strategy appears insignificant at first glance but is worth considering. Strategy is used in war mostly in exercises — called maneuvers — while enterprise management is always for real (even though enterprises occasionally operate in “test markets”).

It makes sense to incorporate ideas and approaches from war experiences into strategic management science; however, it is essential not to transfer them rigidly and unaltered but to adapt them to the specific conditions of corporate management.

The term strategy was introduced into business studies at the Harvard Business School in the 1950s. In contrast to the military view, strategy is no longer understood as a choice of means to achieve defined objectives; rather, the formation of objectives is integrated into strategy. This first comprehensive strategy concept — the business policy concept — divides corporate strategy into formulation and implementation.

Strategic decisions are prepared and made in the formulation stage, while strategic objectives are realized both in the company and in the market during implementation. This description of the concept and the separation of strategy definition and implementation are largely retained to this day.

However, the Harvard model does not answer the question of when a business decision should be deemed strategic. The answer to this question was based on the planning time horizon for a long time. Since the middle of the 1980s, however, the conviction has become established that potential rather than the time horizon is the source and prerequisite for sustainable operating success (Gälweiler 1987, 59ff.). The substantive attribute of success potential, and not the time horizon, is now the primary distinguishing feature between operational and strategic planning. An enterprise is acting strategically when it secures and builds success potentials, deliberately or otherwise.

5.1.2 Strategy and Success Potentials

Success potentials formulate an enterprise's opportunities to generate a significant advantage over competitors: above-average revenues, profit, cash flow, and a great reputation — whatever the enterprise's key goals may be (Malik 2013, 100). Success potentials may be market position (e.g. a quality leadership image or a perfectly functioning distribution network), products, services, or functional areas that display unique capabilities (an extraordinarily creative development department, efficient employee recruitment, a successful sales team, etc.). From this point of view, success potentials are features of a corporate situation that largely determine business success. A distinction can be made between three sources of success that determine the three categories of success potentials (Grünig/Kühn 2005, 7):

- Attractive competitive position in specific output markets
- An enterprise demonstrates significant market share in large, possibly still growing markets, or is even the market leader.
- Sustainable competitive advantages in the product/service offering which impact on the market
- Success potentials can lie, for example, in product quality, superior customer services, permanently lower prices, or attractive and effective advertising.
- Competitive advantages in resources and capabilities that have a permanent effect on the product/service offering

Here, success potentials can be created on the basis of superior technological, financial or human resources. In addition, corporate culture, brand image, and complex capabilities in innovation or cooperation can form the basis of a success potential. The different factors build on each other. On the first level, the enterprise's desired competitive position in the output markets is defined and assessed in the context of the overall corporate strategy.

This level should answer the question of which businesses should be kept, cut back, or developed in the future. Both market attractiveness and the competitive intensity of the industry are evaluated for this purpose. An assessment should be made on this basis of whether the enterprise will be able to achieve a strategically relevant market share. An analysis of the company's own competitive strength compared to competitors is a major output here.

The other two categories of success potentials are principally determined in the context of the business strategies. The second level is concerned with the enterprise's product and service offerings. For example, the competitive advantages and disadvantages of its offerings (outputs (products/services), prices, communication, distribution) in the individual product groups are identified and assessed. On this level of the enterprise, the competitor comparison results in an assessment of the relative strengths of the offering based on a diagnosis of strengths and weaknesses.

The suitability of the resources for securing the envisaged advantages of the offering is evaluated on the third level. Their strengths should be assessed to establish whether they are sustainable and how they can be protected. Consequently, the primary concerns are the value of the resources to the customer and how their advantages can be defended.

Example

Innovation as success potential at 3M

3M (Minnesota Mining and Manufacturing) plans to earn at least 30% of its revenues with products that are less than four years old. The company is well known for its adhesive tapes and adhesives, with Post-It stickers becoming particularly famous. Thanks to permanent innovations, 3M has secured excellent positions in a variety of specialty markets. The company realized early on that innovations did not occur by chance but had to be promoted with suitable structures and the right atmosphere. It, therefore, places great emphasis on niche thinking and close customer contacts; failures are normal occurrences, red tape has been minimized for years, and innovative employees are supported and developed as far as possible.

The company is aware that its strength can also represent a weakness and that orientation to the market is crucial. The following statement by 3M's former CEO Livio D. De Simone is a comment on the links from capabilities and resources to innovations on the one hand and to value to the customer on the other: "We're going to do two principal things: be very innovative and satisfy our customers in all aspects." ◀

A number of prerequisites must be fulfilled in order to build and maintain success potential. On the one hand, strategic success potentials require the constant deployment of scarce resources. These resources are, therefore, not available for other business activities. On the other hand, time is an important resource. It is different from the others because — unlike other resources such as money, technical tools, or personal qualifications — it cannot be increased. Finally, the ongoing activities in all corporate units have to be involved on a coordinated basis in the building and maintenance of the strategic success potentials or extensively integrated into these processes.

It follows from these prerequisites that, because of the high effort involved, only a limited number of success potentials can be pursued at the same time. The most important question for management in this context is, therefore, how do you find out which success potentials to build? This question is answered in the corporate analysis.

5.1.3 Characteristics of Strategic Thinking

In line with the system-based, cybernetic view, strategic thinking is analytical and holistic (Chapter 4). Thinking strategically means trying to take future expected or desired target states as a basis and using them to build bridges to the present situation, rather than focusing on present circumstances and planning future developments in advance.

Strategic management is therefore marked by the following characteristics:

- Strategic management is medium- and long-term, i.e., conceptually, it tries to bridge periods of 3 to 10 years from the present to the target point.
- Strategic thinking is goal-oriented, i.e., it is geared primarily towards future desired states and not so much towards current options.
- Strategic thinking is anticipatory, i.e. it tries to identify future developments and orient itself towards these in its shaping activities.
- Strategic management is holistic, i.e., it does not aim to optimize individual areas but takes their interdependencies into account and tries to realize synergies, in other words, the positive effects of mutual support.
- Strategic management is concentrated and selective, i.e., it is based on the insight that only a limited number of options can ever be taken up at any one time, and therefore, the most promising ones have to be selected from the set of opportunities on offer.
- Strategic management is fundamental, i.e., strategic action programs do not restrict themselves to “superficial treatment” of existing planning documents but set development paths and thereby shape the basic orientation of an enterprise.
- Strategic management aims to make and keep an enterprise uniquely identifiable by modeling out (identifying) special strengths and unmistakable characteristics in the competitive environment. This results in a value for the corporate objectives.
- Strategic thinking and action are innovative and intuitive. The decisions are not just made using rational arguments but follow feelings that can be explained.

Strategic management can be defined as follows:

Strategic management includes long-term, holistic action programs that focus the enterprise’s energies on success potential. Building and maintaining these will create the competitive advantages that give the enterprise the scope to achieve its objectives, develop further, and grow.

5.1.4 Overview of Strategic Concepts

As briefly mentioned in the last section, strategy research has developed several concepts since the 1960s. The authors’ different viewpoints can be divided into market-based (industrial economic) and resource-based concepts. System-based approaches have had a strong influence on the development of strategic concepts. However, they are primarily holistic in nature and go beyond purely strategic issues. For these reasons, they are not discussed here as a strand of the strategy concepts (Figure 5.1).

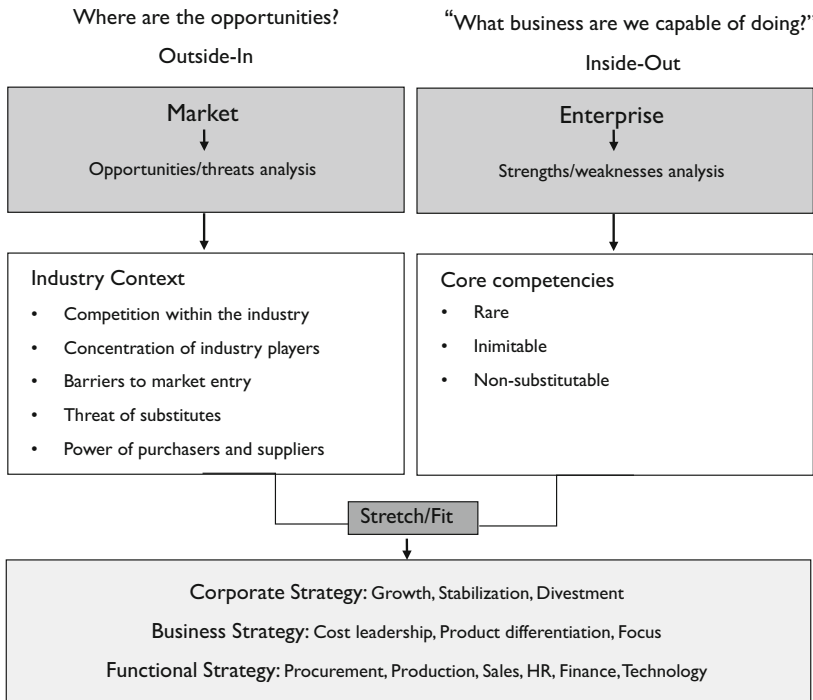


Figure 5.1 Market- and Resource-Based View

The market-based approach (“structure — conduct — performance”) considers the industry sector and strategic group in which an enterprise operates as the most important factors influencing profitability. The attractiveness of the enterprise’s area of activity explains profitability differences; i.e., the structural conditions of the market or the industry are responsible for corporate success.

Industry analysis determines the markets’ opportunities and threats. A market with low competitive intensity is attractive. These opportunities and threats are compared with the strengths and weaknesses to realize a fit between the enterprise and the environment. Advocates of market-based corporate strategy include Porter (1992) and Hinterhuber (1990). Resource-based views concentrate on strengths and weaknesses. An enterprise’s available resources are the central driver of competitiveness.

An enterprise can build a competitive advantage only when it possesses better resources than competitors and achieves value in the market. The four central attributes are the generation of a perceived value to the customer (value), rareness, inimitability, and non-substitutability. To this extent, success potentials are highly individual and situation-dependent or enterprise-dependent. Easily imitable capital and mechanical resources are not, however, suitable for building sustainable competitive advantages. Key resources are skills (capability-based view), in other words, the collective knowledge of an enterprise (knowledge-based view). The objective of the resource-based corporate strategy is to create unique core competencies.

Champions of the resource-based approach include Andrews (1987), Ansoff (1984, 1988, 1992), Barney (1991), Gälweiler (1987), Hamel and Prahalad (1990), and Mann (1959). The idea of core competencies outlined by Hamel/Prahalad (1990) demonstrates some special features and confirms that the term “resources” is understood more broadly than in everyday language. They developed the resource-based concept further into the core competence concept and do not regard the subunits of an enterprise as independent units but as stores of resources and skills (centers of competence).

The core competence concept attempts to exert an attacking and shaping influence on the competitive structure by creating new products and markets. Hamel/Prahalad are of the opinion that competition does not take place in the business areas but at the corporate level. For that, long-term development and the transfer of core competencies is essential to create a permanently stable, virtually unassailable position. The two strategy approaches should not be regarded as alternatives. Rather, it is crucial to integrate them (Mooradian et al. 2013, 7). There are various arguments in favor of integration. First, analyzing competitive forces and actively shaping a company’s internal resources and skills are not mutually exclusive. The standard strategy process reflects this circumstance to the extent that the enterprise’s external position and internal potential are analyzed.

Second, it can be assumed that applying the two approaches may change depending on the situation. Depending on the problem, the main focus of attention will be more on external market conditions or more on internal resources and skills. For example, in some market situations, an enterprise will have to defend itself externally and make efforts to raise barriers to market entry. In addition, the enterprise will have sufficient time to take an attacking and innovative approach and, by doing so, influence the market in the long term. Market relevance should also be mentioned. The current and future markets will be decisive. Consequently, the resource-based approach will not normally rule out the market perspective (Stacey/Mowles 2016, 88-89).

5.2 Overview: Strategic Management as a Process

Strategic management is based on a holistic problem-solving methodology and calls for analytical and integrated thinking. In addition to a phase in which analytical skills are required, intuition and creativity are needed in strategy development, for example. Furthermore, the process of strategic management is of an iterative and circular nature, not linear. The results and outcomes of any process substep affect prior steps (feedback). ‘Circular’ means that the strategic management process is repeated periodically.

The process can be divided into three phases with different steps (Figure 5.2):

- Information analysis (analysis of the environment and the enterprise, strategic analysis)
- Strategic concept (vision and mission, strategy development)
- Strategy implementation (direct and indirect measures, strategy control)

It is the task of the environmental analysis to explore the general and specific corporate environment to see whether signs of a threat to the present business and/or of new opportunities can be perceived. The environmental analysis cannot confine itself to the specific

In the next step, the information from the strategic analysis is linked with the strategic framework. Current conditions are examined in light of the corporate vision to be realized: the existing opportunities and threats in the environment and, accordingly, the strengths and weaknesses of the enterprise concerning environmental conditions and direct competitors.

In strategy development, an attempt is made to condense the strategic options that would be useful under given circumstances to formulate conceivable strategies and analyze them in depth. From the available options, a strategy finally has to be selected that promises the maximum success in view of the enterprise’s strengths and weaknesses and the opportunities and threats to be expected from the environment. In making this strategic selection, the selection criteria considered will include not only performance dimensions such as sales and profitability but also questions of corporate policy.

One must therefore weigh up whether or not certain options conflict with the company’s guiding principles. The next step, strategic implementation, is aimed at embedding the new strategic direction permanently in day-to-day business. However, it very often turns out that the realization of a plan that extends over the years is accompanied by many unknowns and barriers. Many enterprises, therefore, suffer from something that can justifiably be termed implementation problems. Strategic control forms a direct part of strategic implementation and should be seen as a permanent regulating and steering process. Although it is named as the last step, this continuous checking on the assumptions, implementation and effectiveness of strategic decisions is just as essential as the other elements.

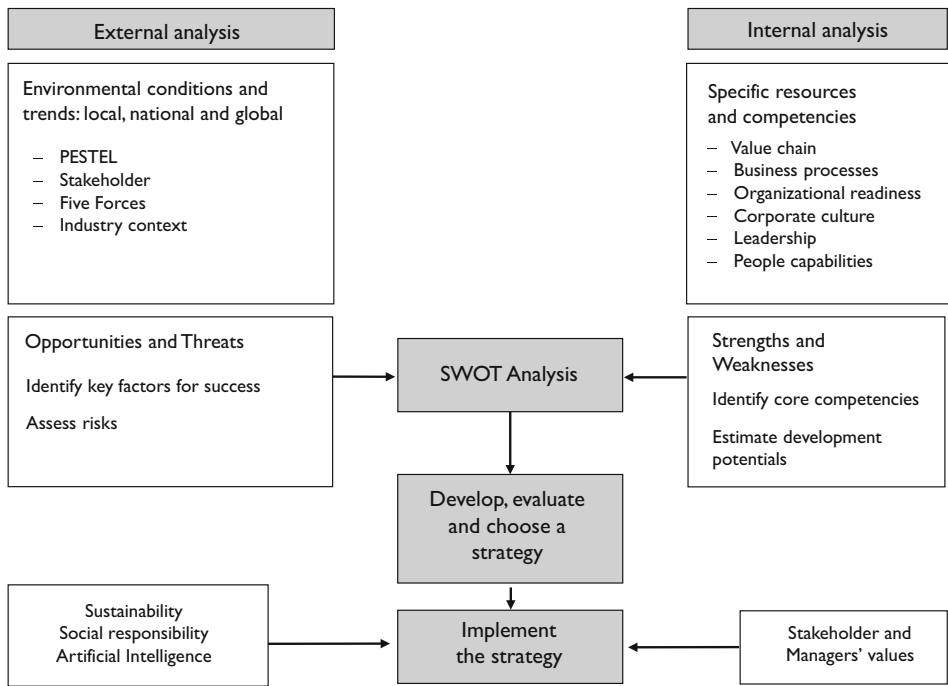


Figure 5.3 SWOT Analysis as Basis of Strategic Design

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5.3 Analysis of the Environment and the Enterprise

5.3.1 Environmental Analysis

As already discussed in Chapter 2, relationships between the enterprise and its environment are characterized by great complexity and dynamism. The environmental analysis explains important developments in the various sectors of the environment, which ultimately focus on the crucial opportunities and threats. The reference framework for environmental analyses is formed by stakeholders, the industry sector, and the dimensions of the general environment. Probable developments in relation to various groups with an interest in the enterprise are investigated, such as employees and customers. In addition, environmental developments are considered. The environmental analysis should be structured as follows: Four-step stakeholder analysis, customers and output markets, competitor and industry analysis, competitor analysis, Analysis of the general environment, and scenario technique

Four-step stakeholder analysis

The various stakeholders sometimes have a decisive influence on corporate objectives. It is crucial for the enterprise to know which stakeholders can exert a significant influence and have a large power base. It should be noted here that stakeholder management is not an exercise in maximization but is primarily an optimization process. It is advisable first to identify the stakeholders, establish their relevance, and compare their expectations and

value, and then to initiate preliminary thinking about objectives and measures (Müller-Stewens/Lechner 2016, 150ff.). The first step, identifying the important stakeholders, can be carried out using the following questions:

- Do stakeholders exist who play an active role in the corporate strategy (e.g., strikes)?
- Which groups play a formal and informal role in the formulation of the strategy?
- Can stakeholders be defined based on demographic criteria (e.g., age, gender, profession, religion)?
- Do organizations exist that can influence the enterprise (e.g., associations) and with which close relationships are maintained?
- According to expert opinion, who has relevant interests in relation to the enterprise and its transactions (e.g., Greenpeace, anti-competition authorities)?

In the third step, shareholders' expectations are clarified and compared with their possible value. Normally, this stakeholder analysis produces the customer and output markets on the demand side and the competitors on the supply side as crucial elements.

Customers and output markets

Because of its strategic importance, the demand side of the enterprise should be analyzed as the next step (Hamel, 2002, 75ff). Here, the output market is analyzed. This encompasses all customers who are actual or potential purchasers of a product or service. The output markets can be divided into consumer markets and organizational markets. The consumer markets relate to individuals and households, providing goods and services for personal use. Because of its strategic importance, the demand side of the enterprise should be analyzed as the next step (Hamel 2002, 75ff.). Here, the output market is analyzed. This encompasses all customers who are actual or potential purchasers of a product or service. The output markets can be divided into consumer markets and organizational markets. The consumer markets relate to individuals and households, providing goods and services for personal use. The organizational markets can be divided into producer markets, reseller markets and government markets.

Because the individual markets have different game rules and features, a differentiated consideration of the markets is essential for the effective strategic development of the enterprise. Questions have to be answered about the market players, the products and services purchased on the market, the purchasing occasions, the players in the purchasing process, purchasing objectives and purchasing practices.

In selecting market strategies, decisions have to be made on the segmentation and positioning of the target market. Market segmentation has become a buzzword in the past few years: The idea is to focus business activities on one or more market segments. The task of market segmentation is to divide up the output market into homogeneous units or market segments so that marketing can be carried out on a differentiated basis (Mooradian 2013, 193). Consequently, the central issues are about which market segments should be handled in what way and which ones do not have to be considered at all.

Market segmentation aims to produce homogeneous customer groups so that products and services can then be adapted to these customer groups. Among other things, market

segmentation requires the customer groups to have similar needs and a unique identity, and for there to be relevant differences in products and services for the groups. This means that the segments are internally homogeneous and heterogeneous compared to other segments. Therefore, a market segment is understood to be a group of customers who display the same or similar needs and/or react similarly to the deployment of marketing tools (Mooradian et al. 2013, 153).

The size of the market segments depends first on the costs of differentiated marketing for the individual segments. Second, the value of the segmentation has to be considered, i.e. the willingness of customers to pay for the specific products. By optimizing these two elements, an attempt is made to make the market segments ever smaller and more individual. Technological progress in processes, information technology, and automation has made a major contribution here. The trend towards customization is becoming more and more perceptible, particularly in service companies. However, an enterprise cannot normally meet every individual wish. It should concentrate on those market segments that are most attractive for it.

Example

Segments at Coca-Cola Company

The company includes geographic operating segments (Europe, Middle East & Africa, Latin America, North America) and two non-geographic segments: Global Ventures and Bottling Investments Groups (BIG). Global Ventures includes equity investment and Costa coffee. The Bottling Investments Groups cover bottlers in Southeast and South-West Asia and parts of Africa. ◀

The formation of market segments depends on various requirements (Bieger et al. 2004, 125ff.):

Relevance to purchasing behavior: Customers must recognize the differences between the products and services and find them relevant.

Specific deployment of marketing tools: Marketing to independent customer groups can be carried out using marketing tools.

Size and potential: The market segment has sufficient critical mass to justify the costs of segmentation. The question also arises as to whether the company is actually in a position to develop and implement an appropriate strategy for the segment.

Stability over time: The market segments formed should be valid for a long period.

Measurement principle: The individual market segments should be captured by market research methods so that they can be clearly identified and measured. The basis may be the outcomes of market research and consumer analyses or an analysis of the company's customer base. A wide variety of multivariate statistical methods is available today, offering a clearer definition of the market segments.

Market segmentation takes place in several steps. The first question to be clarified is: from the point of view of the market situation, which differentiating feature has the highest priority? This process of structuring by priority is a prerequisite, always considering the described requirements for the market segments. Consequently, the segments' homogeneity and measurability are critical decision-making tools in such decisions. Over-detailed

segmentation quickly violates the measurement principle because it is difficult to prepare the necessary data economically.

In theory, some structuring criteria can be used for segmentation (Mooradian et al. 2013, 193 ff.). A selection follows:

Segmentation by purchasing behavior: Key criteria may be purchasing frequency, the point of purchase, purchasing willingness, or consumption rate.

Geographic segmentation: Primary criteria may be national or (in Switzerland) cantonal borders, linguistic regions, or, for example, cities with certain populations.

Product-related segmentation: Product-related criteria, such as the product's capacity and output, materials, functions, or similar criteria, are used in particular with capital goods.

Segmentation by customer type: In consumer goods, characteristics such as gender, age, civil status, family size, or income bracket are key. For capital goods, the criteria that are more likely to be applied would include customer potential or the purpose for which the product is used.

From a marketing point of view, it should be noted that the more clearly and homogeneously market segments are formed and formulated, the more efficiently and successfully marketing can be designed. The optimum segmentation makes it possible to determine objectives, actions, and the allocation of funds to the marketing tools because, as a rule, each marketing segment implies its own marketing mix.

The decision regarding segmentation factors is influenced by profit considerations, among other things. A segment's attractiveness is revealed by its great objective chance of achieving healthy profitability in the long term. Attractiveness is influenced by market price, market size, customer bargaining power, market growth, etc. A segment's attractiveness must then be compared with the level of competition. The competitor and industry analysis section below explains these considerations.

Competitor and industry analysis

A more detailed analysis of competitors and the industry sector offers a further opportunity to study the environment, particularly with reference to the business units. The industry sector, or simply "the industry", is described as a group of enterprises that offers similar products or services. Porter's model of the five competitive forces (1992) is an excellent way of analyzing the competitive environment.

View from the media: Embraer explores options for aircraft to rival Airbus and Boeing
Brazilian aerospace group studies plans for narrow-body passenger plane or long-range business jet
Financial Times, May 1, 2024, by Michael Pooler and Sylvia Pfeifer

Embraer, the Brazilian aerospace and defence group, is studying options for a new passenger aircraft that could put it in direct competition with the industry's heavyweights, Airbus and Boeing. The project, which is in its early stages, could either become plans for a narrow-body aircraft or a long-range business jet, people familiar with the situation confirmed.

The business case for the initiative should be ready by the end of next year, when it will then be taken to the board of directors, these people said. The Wall Street Journal first reported that Embraer was looking at the possibility of a narrow-body aircraft. The world's third-largest civil aircraft manufacturer is the leading producer of regional jets, which typically have up to 120 seats and are smaller than the narrow-body planes that Boeing and Airbus make. Its latest and largest model, the E175-E2, can carry up to 146 passengers. In executive jets, Embraer sells entry-level, light, midsize and super midsize aircraft. The long-range segment is dominated by Gulfstream, Bombardier and Dassault Aviation. Any decision to enter the single-aisle market would see Embraer compete directly with Airbus's best-selling A320 family of jets and Boeing's 737 Max aircraft. It would be a decision fraught with risk; launching a model costs tens of billions of dollars and success is not guaranteed. Embraer has in the past regularly played down any interest in entering the competitive market for single-aisle aircraft. Attention over the possibility has intensified, however, amid the turmoil at Boeing after the mid-air blowout of a section of one of its 737 Max aircraft in January. The US plane maker has since been forced to slow production of the Max as it focuses on improving its manufacturing and quality processes. It burnt through almost \$4bn in cash in the first three months of this year and is revamping its top management. The crisis has frustrated Boeing's airline customers, many of which have had to trim their busy summer flying schedules.

Embraer said that while it "certainly has the capability to develop a new narrow-body aircraft", the company has a "young and very successful portfolio of products developed in recent years, and we are really focused on selling those products". It added: "We don't have any plan for a sizeable cycle of capex at this time." Embraer, which has previously said it was interested in partnerships to open new markets for its current products, is separately talking to several countries. It will consider local production, depending on the volumes of aircraft acquired. The company has emerged strongly from the Covid-19 pandemic, returning to a profit of \$164mn in 2023 as it ramped up deliveries of new aircraft. Its order backlog is at the highest level in seven years, according to Citi analysts. Shares in the São Paulo-listed group have risen by more than half in 2024, giving Embraer a market capitalisation of \$4.8bn on Wednesday. Taking on Boeing head-on would be a remarkable turn of events for Embraer, which is considered the crown jewel of Brazilian engineering.

www.ft.com/content/dbcac8f2-ede8-46ff-982f-a30a144300ee 2/4

The fundamental concept of this model is describing an industry's competitive intensity using five determinants. The concept identifies the structural features of an industry that determine the level of competitive intensity and the profitability of an enterprise and the industry in general.

These forces have different effects on competitive intensity. Therefore, it is important to identify the strongest factor or factors for the relevant industry in each case.

Bargaining power of buyers (buyer power): Is the enterprise dependent on one or a few customers? Are customers dependent? Are the products and services provided highly standardized? What is the importance of the price of the products and services to the customer's total costs? What assessment can be made of market transparency?

Bargaining power of suppliers (supplier power): Is the supplier dependent on one or a small number of customers? Is the enterprise dependent on suppliers?

Threat of substitutes: Are there alternative products or services that could meet the customers' needs? Are alternative products expected in the future? Can these products be offered at competitive prices?

Threat of new entrants (entry barriers): Are the capital requirements for market entry high or low? Are there defensive opportunities in price reductions? How can customer loyalty be assessed? Is access to distribution channels easy? Are there potential competitors who already have a suitable distribution structure? What costs does the customer incur when switching suppliers?

Industry competitors (intensity of rivalry): How many players are there in the market? Do market agreements exist among the players? Are customer needs fairly homogeneous, or do specific needs exist? Are there big investments tied up in the industry? How high are the exit costs? What possibilities exist to switch to new areas of activity or industry sectors?

Porter's industry analysis provides a sound framework for analyzing the structural conditions in an industry. The industry analysis can be extended by the description of the strategic groups. The concept is an extension of classic environmental analysis, although the statements about the influence of industry structure on profitability can only receive qualified confirmation. The direct influence of industry structure must be put in perspective in terms of the age of the industry or the homogeneity of the enterprise.

Competitor analysis

The initial review of the competitive situation conducted in the industry analysis should now be performed in detail in the fourth step. The competitor analysis attempts to create a reaction profile of the competitor. You put yourself in his situation and record his objectives for the future, possible assumptions, and present strategy and capabilities.

A competitor analysis can be performed in various ways, and there are an extraordinary number of variations for its presentation. In practice, those two criteria are often selected on the basis of experience and have the most influence on the competitive situation. Reducing reality to a small number of criteria is not always satisfactory. However, it allows complex situations to be communicated in a visually memorable way.

**View from the media: How Boeing's troubles are affecting its supplier.
Makers of parts for the US's largest aircraft manufacturer wrestle with
uncertainty over demand and production.**

Financial Times, May 29 2024, Claire Bushey in Chicago and Sylvia Pfeifer

Boeing's troubles are bleeding out to its supply chain, where uncertainty over production rates has suppliers guessing at how many parts to make to avoid the cost of holding too much stock. The aircraft maker has slowed manufacturing of its work-horse jet, the 737 Max, as it tries to improve production quality following a door panel blowout on a flight in January. It is facing a Thursday deadline from federal aviation regulators to deliver a plan that addresses what a panel of aviation experts described as a flawed safety culture. The production slowdown is testing the resilience of a brittle aerospace supply chain that already has faced years of price cuts and choppy production thanks to Covid-19 and two fatal crashes that grounded the Max worldwide. Without a well-oiled supply chain, Boeing will struggle to deliver jets to airlines clamouring for them, and could destabilise labour in an industry that employs hundreds of thousands of workers. Production rates were "the elephant in the room", Boeing supplier Astronics chief executive Peter Gundermann told investors earlier this month. Headquartered in upstate New York, the electric power systems maker said it could lose \$11.5mn in revenue if its shipments were cut, although earnings will still fall within the company's guidance. Each 737 Max contained about \$95,000 in Astronics products, Gundermann said. "Will they slow down suppliers?" he asked. "They might, it's unclear... What would they reschedule us to? I mean it's kind of a wild guess at this point, nobody really knows." The Federal Aviation Administration has capped Boeing's production of the Max at 38 per month. Boeing is building fewer than that but plans to raise output to 38 in the second half of the year. Chief financial officer Brian West has said the company is adjusting the schedules that govern the pace and volume at which it buys parts, from landing gear to lavatories. That affects the operations and finances for suppliers, some of which are public companies with market capitalisations in the billions. The ones that do a lot of business with Boeing were "feeling the pain at the moment", said one industry consultant.

<https://www.ft.com/content/4703958f-2ff7-4de8-803e-0f19d3008676>

Analysis of the general environment

The first four steps in the environmental analysis were strongly based on the company's stakeholders. The general environment analysis examines the ecological, technological, economic, or social sectors.

The ecological sector integrates nature in the broadest sense into the analysis. Here, human interventions and scarce natural resources are in the foreground. Due to the considerable use of resources and the constant emission of pollutants into the environment, etc.,

this aspect is of great importance to preserving nature and, therefore, our “living space”. Depending on the industry, location, or other circumstances, an enterprise has to confront such problems to a greater or lesser extent. “Environmental protection” and “environmental pollution” are the keywords here. In addition to pollution, the following points have to be taken into account in this area:

- Fewer free resources
- Increasing use and modification of natural materials, forces, and living things
- Increased legal regulation in the area of environmental protection
- Increasing costs of preventing and eliminating ecologically threatening activities

View from the media: The World Is VUCA — How Are You Going To Deal With It?

Forbes, March 2, 2023, by Matt Symonds

Is the international business landscape more VUCA than ever before? Coined in 1987 by the US Army War College to describe the more volatile, uncertain, complex and ambiguous multilateral world from the end of the Cold War, the term was quickly put to use with the fall of the Berlin Wall and has been in constant use ever since. The 1990s saw the collapse of the Soviet Union, the start of the World Wide Web and creation of the internet, the opening of the Channel Tunnel between Britain and France, the repeal of apartheid in South Africa, the cloning of Dolly the Sheep, the signing of the Kyoto Protocol on the environment, the introduction of the Euro currency, and the impeachment of a US President.

At the time it probably felt like a 9 on a VUCA scale out of 10. The first decade of the 21st century was no less eventful, marked by 9/11, the invasion of Iraq, an economic boom, most notably in China, the launch of both Facebook and the first iPhone, growing concerns about climate change, the worst financial crisis since the Great Depression, the start of the ‘Arab Spring’, and Real Madrid set a world transfer record when it purchased Manchester United’s Cristiano Ronaldo for £80 million.

By this stage VUCA, a term based on the leadership theories of Warren Bennis and Burt Nanus has been increasingly adopted by strategic business leaders to describe the chaotic, turbulent and rapidly changing business environment that has become the ‘new normal’. So as we moved into the 2010s we still faced the chaotic wake of a global financial crisis, Greece became the first developed nation in history to default the International Monetary Fund, social media was fueling mass protest movements including Occupy Wall Street, #BlackLivesMatter and the #MeToo movement, the Brexit referendum saw Britons vote 52 to 48 to leave the European Union, Donald Trump moved into the White House on a raft of protectionist policies, Apple set a new record as the first public company to be worth \$1 trillion, and the Chicago Cubs won the World Series for the first time since 1908. We also saw the impeachment of a US President, again.

With one foot in the door of the 2020s, already the world has been gripped by an unprecedented global pandemic that has reshaped the world, war has returned

to Europe with the Russian invasion of Ukraine, climate disruption contributed to catastrophic wildfires, intense droughts and tropical storms, oil prices plummeted before soaring to levels that have contributed to a cost-of-living crisis and the return of inflation, and for the first time more than 10% of Fortune 500 companies are led by women. Are today's business leaders, both men and women, any more exposed to VUCA than their predecessors?

<https://www.forbes.com/sites/mattsymonds/2023/03/01/the-world-is-vuca-how-are-you-going-to-deal-with-it/>

The technological sector encompasses technology and, therefore, the observation of technical progress. Natural and engineering sciences at universities, particularly research and development by competitors, form an important part of an enterprise's technological environment. The major importance of this sector is revealed by the following developments:

- Acceleration of technological change
- Shortening of product life cycles
- Increased use of financial resources
- Increased risk in research and development
- Declining protection of proprietary technology

From the economic point of view, the enterprise is seen as embedded in a macroeconomic process and as part of a national economy. Understanding and interpreting these macroeconomic processes is crucial for the enterprise's success. The enterprise is, therefore, dependent to a large extent on the macroeconomic development of a country or even on the global economy.

Depending on the industry and the input or output market, the enterprise will need data on, say, the development of population figures, gross domestic product, private household consumption, investments, inflation, and employment.

- In addition, the following trends are important at the enterprise level:
- Increase in global economic interdependence
- Declining significance of models and forecasts
- Increasing globalization of the input and output markets

The social sector concerns the human being as an individual and his or her position in society. This sector is highly complex and can be divided, for example, into the sub-categories of family, culture, law, politics, and the church. It has increased enormously in importance over the last decades.

- Social norms and values are being increasingly challenged.
- The enterprise is increasingly seen as a social entity with its social responsibility.

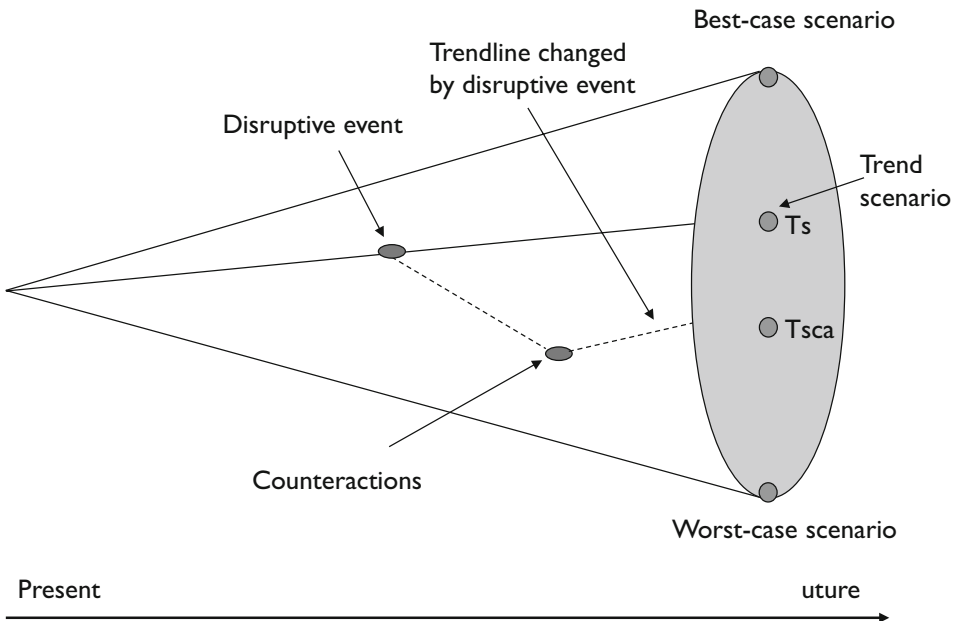


Figure 5.4 Scenario Technique

Scenario technique

The final step uses the scenario technique. A trend scenario is taken as the basis, disruptive events (“wild cards”) are simulated, and potential actions run through. It has proved helpful to consider a positive extreme scenario (“best case”) and a negative extreme scenario (“worst case”) as feed-forward (Figure 5.4).

In contrast to conventional forecasting methods, which mostly attempt to determine the developments in individual parameters in the form of extrapolations, scenarios are intended to show the development of environmental constellations as an integrated pattern. Individual parameters are, therefore, not examined in isolation but in terms of how they interact. It is much more difficult to capture and understand integration than to track individual parameters. Scenarios are, therefore, not point forecasts, but the presentation of conceivable states. The identification within the network of non-controllable parameters of an enterprise is very useful for this purpose (Ramirez et al. 2017, 31)

In practice, aggregating the non-controllable parameters in scenario areas has proved valuable. Such areas may comprise, for example, technological, ecological, or social aspects, as well as markets, the economy and competition, politics, and legislation. These aspects each have a strong influence on the problem situation or on the objectives and business activities, and they are linked with the controllable parameters.

Example**Scenario technique for a travel agency**

Many travel agencies use the scenario technique in strategic planning. Scenarios with disruptive factors or unusual occurrences are considered and used as the basis for management decisions. The accumulation of disruptive factors in the last few years, such as the Gulf and Iraq Wars, 9/11, and terrorist attacks on cities (Madrid 2004, London 2005, Paris 2015, Nice 2016) and beach resorts, are undoubtedly sufficient reasons to continue planning with scenarios. The pessimistic assumptions have unfortunately been confirmed by such events, underpinning the importance of their use for the travel industry. It is particularly important for travel agencies to prepare well for such contingencies with preventive measures, particularly when key market segments are affected. ◀

As a rule, a trend scenario is assumed that is based on the probable developments in the various sectors. The degrees of freedom are restricted to a greater or lesser degree and contain opportunities and threats. The directive possibilities then have to be analyzed within the base scenario, decisions taken, and interventions planned. In order to capture other presumed developments, positive and negative alternative scenarios are also sketched. Extreme situations can also be assumed, or scenarios for certain disruptive events can be constructed. Contingency plans and strategies are constructed for these alternative scenarios, which can, so to speak, be “pulled out of the drawer”.

5.3.2 Corporate Analysis

One of the tasks of strategic management is to coordinate the enterprise’s potential with the requirements of the corporate environment. The aim of the corporate analysis is to obtain as objective a picture as possible of the enterprise’s present and future strengths and weaknesses. Every company has a wealth of quantitative and qualitative data that needs to be reduced, although the historical and internal quantitative data are less meaningful. Above all, qualitative data are important for strategic analysis, for example, information about the quality of the market outputs, potential capabilities, or performance potential. These data on the enterprise have to be set in the context of market and competitive conditions. The strategic corporate analysis is, therefore, based on both an internal and an external perspective. A strengths-weaknesses analysis can be carried out in three steps:

Identify the sources of strengths and weaknesses

The enterprise’s potentials have to be systematized and the strategic success factors discovered. Consequently, a manager’s task is defining and analyzing the enterprise’s strategic success potentials and core competencies.

Compare and assess the strengths and weaknesses

The competitive situation determines whether a strategic success factor becomes a strength or a weakness. For this reason, the potentials must be compared with those of direct competitors (competitor comparison), across industries (benchmarking), and from a customer-oriented viewpoint.

Generate the strengths and weaknesses profile.

Various concepts have become more or less established for identifying sources of strengths and weaknesses. These include resources, standard skills, unique capabilities, strategic success positions, and core competencies. These terms are very similar in content and, in addition, have different definitions (Figure 5.5).

Resources and standard skills are elements that an enterprise adds as input to the value adding process. In addition to other classifications, a distinction then has to be made between tangible and intangible resources. Tangible resources may be machines, the location, a standard software or proprietary systems developed by the company. Intangible resources are licenses, expertise, quality of the organization and corporate culture.

For example, Pümpin/Amman (2005, 30) equates strategic success potentials with core competencies, whereas Pearce/Robinson (2005, 267ff.) associates core competencies with core capabilities. One possible way of classifying the concepts is using two criteria. On the one hand, strategic success positions and core competencies deliver relative value to the customer. On the other hand, the extent to which the competencies can be protected and further developed is crucial.

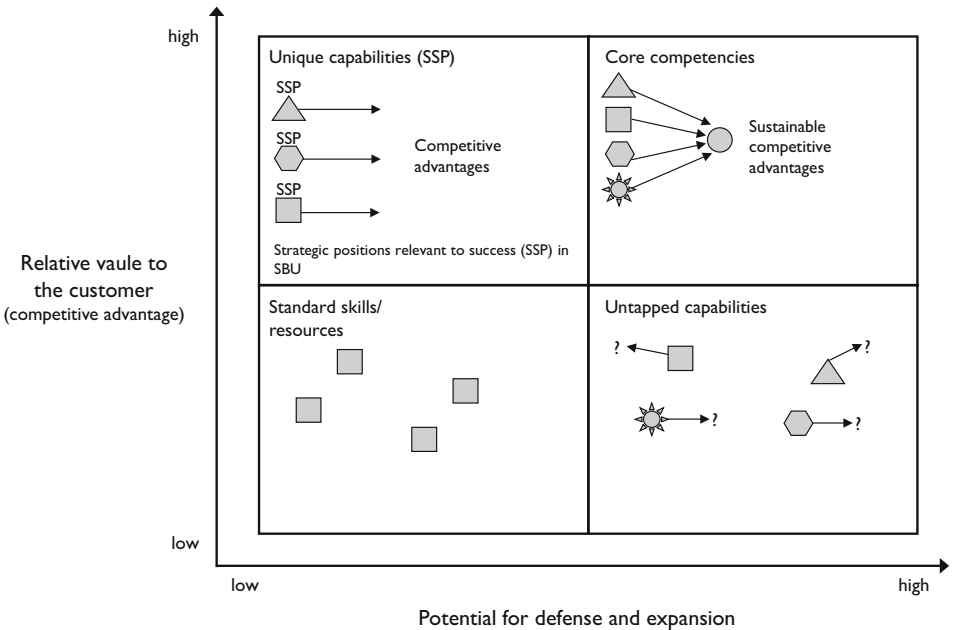


Figure 5.5 Resources, Skills, Strategic Success Positions, and Core Competencies

The tangible and intangible resources can, however, also be interpreted from the point of view of how far they can be traded, exchanged, and multiplied. Polanyi (1985) and Nonaka/Takeuchi (1997) coined the two terms “explicit and tacit knowledge” for this. Explicit knowledge can be formulated, is easy to multiply, and can be bought. This knowledge is also disseminated by means of technical drawings, newspapers and books, research reports to conferences, e-mails, or the Internet.

Tacit knowledge is considered one of the sources of business success and is harder and more expensive to transfer. Its dissemination is linked to people, such as the developers of a software program. Tacit knowledge exists in the minds and skills of people and cannot be represented in letters, figures, and/or drawings. On the one hand, tacit knowledge includes the mastery of physical routines, which, for example, are associated with fine motor skills. These physical routines require learning by doing and personal human contact. On the other hand, they also comprise skills that are individual to a person, such as intuition, socio-cultural competence, and sensitivity (Osterloh/Frost 2003, 197).

The tangible and intangible resources can, however, also be interpreted from the point of view of how far they can be traded, exchanged, and multiplied. Polanyi (1985) and Nonaka/Takeuchi (1997) coined the two terms “explicit and tacit knowledge” for this. Explicit knowledge can be formulated, easy to multiply, and bought. This knowledge is also disseminated utilizing technical drawings, newspapers, books, research reports to conferences, e-mails, the Internet, or Artificial Intelligence applications.

Tacit knowledge is considered one of the sources of business success and is more complex and more expensive to transfer. Its dissemination is linked to people, such as the developers of a software program. Tacit knowledge exists in the minds and skills of people and cannot be represented in letters, figures, and/or drawings. On the one hand, tacit knowledge includes the mastery of physical routines, which, for example, are associated with fine motor skills. These physical routines require learning by doing and personal human contact. On the other hand, they also comprise skills that are individual to a person, such as intuition, socio-cultural competence, and sensitivity (Osterloh/Frost, 2003, 197).

The tangible and, above all, intangible resources are the source for developing unique capabilities and building competitive advantages. The interaction of tangible and intangible resources results in unique capabilities that can also be described as strategic success positions. In contrast to the resources and standard skills, the strategic success positions display a high relative value to the customer because they offer the customer a desired and perceived added value.

However, neither the resources and standard skills nor the unique capabilities form a basis for sustainable competitive advantages. Depending on the market situation, strategic success positions may be only temporary because technological changes can reduce or destroy the advantage or because competitors imitate and improve the advantage.

Example**Technological substitution at Brother**

In the early 1980s, Brother was the market leader in typewriters. Digital technology and the breakthrough of personal computers meant that a higher-level technology substituted Brother's technical capabilities. The company then failed to make up the technological lag, because the gap between it and its competitors was too great. ◀

If an enterprise wants to build sustainable competitive advantages, it needs core competencies (Prahalad/Hamel 1990). When an enterprise wants to build a strategic success potential on a product or service, it must ensure that this product will appear crucially important to buyers even beyond a certain period, i.e. it must not be subject to short-term fads and no satisfactory alternatives should be available. An enterprise's core competence is only imitable in the long term, if at all. In many cases, products or services can develop their core competence only if they are protected in the long term and the enterprise does not have to share the value with competitors. The smaller the possibility of imitation, the higher the strategic potential. Considerable resources have to be deployed to build a core competence. As a prerequisite for inimitability, tangible and time resources have to be deployed in building core competencies. In most cases, imitators can attempt to catch up quickly on a lead only at a very great expense or carry out the development itself at a low cost over a long time. The more resources are consumed and the greater the time losses that arise in copying a core competence, the greater is the strategic competitive advantage of a product, service, or entire enterprise. Core competencies make an important contribution to the fulfillment of the central corporate objectives. Core competencies should help enterprises to select those objectives of central importance from the vast array that an enterprise can pursue. These central objectives ensure the survival and growth of the enterprise. The enterprise builds its identity through its core competencies. They offer guidance to the members of an organization. Managers and staff within the enterprise should base their actions on the core competencies and consequently see the "meaning" of their work in the creation of the key prerequisites for success.

Tools for determining strengths and weaknesses

First, the literature and practice use different tools to determine strengths and weaknesses, which, once more, are based on different approaches. The classic, value-based, and capability-based concepts should be mentioned here.

The classic approaches examine a company's functional areas or product lines for strengths and weaknesses. For example, the operational functions such as marketing, production, and research and development are brought to the fore, and their potential is subjected to analysis (Harvard Business Essentials 2005, 25). Likewise, an enterprise's product line can be examined based on the notion of the product life cycle.

Example

Miniaturization at Sony

Sony's special capabilities lie in precision engineering, optics, and electronics, which enable the core competence of miniaturization. These capabilities have been translated into products such as Walkman, Discman, video cameras, and HiFi equipment. Sony has continually launched new HiFi equipment products on the market over the past ten years. Such product development would have been impossible without that core competence. ◀

Marketing - Market performance - Assortment - Width of assortment - Depth of assortment - Assortment's fit with needs - Quality - Quality of hardware performance (durability, constancy of performance, fault rates, reliability, individuality, etc.) - Quality of software performance (ancillary services, advice on applications, warranty services, delivery, individual customer care etc.) - Quality image - Price - General price position - Discounts, offers, etc. - Terms of payment - Marketing - Sales - Sales promotion - Advertising - PR work - Brand policy - Image - Distribution - Domestic distribution organization - Export organization - Inventory management - Delivery capability - Transportation	Production - Master production schedule - Vertical integration - Production technology - Effectiveness/age of machinery and plant - Level of automation - Production capacity - Productivity - Production costs - Purchasing and security of supply Research and Development - Research activities and investments - Development activities and investments - Research performance capabilities - Development performance capabilities - Process engineering development - Product development - Software development - Research and development know-how - Patents and licenses Finance - Capital volume and structure - Undisclosed reserves - Financing potential - Working capital - Liquidity - Capital turnover: Total capital, Inventory turnover, Receivables turnover - Investment intensity
Human resources - Employees' qualitative performance capabilities - Commitment to work - Salary policy/social security benefits - Working atmosphere - Team spirit/consistency - Corporate culture	Management and organization - Planning status - Decision making speed - Control - Quality and performance capabilities of managers - Effectiveness of organizational structure - Internal communication - Internal information: Accounting, Market information
Innovativeness - Introduction of new market outputs - Development of new markets - Development of new sales channels	Synergy potentials and know-how relating to - Cooperation - Equity investments - Acquisitions - Restructuring

Table 5.1 Checklist for Competence Analysis

An analysis of resources/capabilities shows where an enterprise or strategic business unit has strengths or weaknesses compared to its biggest competitor. These checklists, structured in accordance with the corporate functions, have the disadvantage of failing to consider activities and processes (Table 5.1).

Value-based approaches are interested in an enterprise's strengths and weaknesses, with the value chain as the central focus. The analysis of Porter's value chain (1992), drawn from industrial organization research, concentrates on an enterprise's possible competitive advantages, which may be derived from either differentiation or cost leadership. In pursuing differentiation, the enterprise attempts to increase value and its profit margin through higher prices. The cost leadership strategy aims at lower costs and lower prices for a constant value. On the basis of the cost lead, however, the profit margin is still adequate. The idea of the value chain with the primary and support activities helps as a guiding framework.

Competitive advantages result from individual value-adding activities because every activity contributes to reducing costs and creating a basis for differentiation. Value is taken to mean the contribution that customers are prepared to pay for the market output (product or service) supplied. The value chain illustrates the total value and is composed of the value-adding activities and the profit margin. Support activities, on the one hand, consist of management processes like the management system, finance and accounting, human resources management, and research and development. On the other hand, support processes are localized, such as inbound logistics, for example. An emphasis on the value chain is important to the extent that the primary activities are based on the input-transformation-output model. The view of the enterprise as a process with supplier relationships on the one hand and customer relationships on the other is organizationally or at least conceptually embedded. A term often used today is business processes, which encompass the enterprise's main outputs. The capability-based approaches determine strengths and weaknesses by filtering out the core capabilities and core competencies.

Example

Boeing accident during an Alaska Airlines flight

In the airline industry, quality and security are key assets. But an accident in January 2024 when part of a Boeing 737-9 Max fell off during an Alaska Airlines flight is a new problem for the US company, which was already struggling with deliveries and long-running supply chain issues. The damage for the reputation is impressive and impacted the entire industry. <https://www.ft.com/content/6f125c8a-3c44-4c0e-9a64-42518154ba9a> ◀

The core competencies can be determined by first identifying them in the enterprise, then positioning them in the value chain, then performing a market-based analysis of them, and finally, integrating them into a core competence management system. The core competencies can be identified using Barney's four questions (VRIO framework) (1997, 145ff.).

- Which competencies have a strategic value? ("the question of value")
- Which competencies are rare? ("the question of rareness")

- Which competencies cannot be imitated, or can be imitated only at a high cost? (“the question of imitability”)
- Are the organizational prerequisites for the core competencies in place? (“the question of organization”)

Based on these questions, a broad estimate can be made of whether the resources and capabilities represent core competencies or are just basic requirements that companies in a certain industry must have. The core competencies have then been identified but not yet systematized. Systematic classification can be achieved by analyzing the core competencies in the functional areas (Table 5.2).

Functional area	Competence	Example
Corporate management – Head Office	Expertise in strategic control of a diversified company	Siemens, Berkshire Hathaway
Research & Development	Competences in basic research, ability to develop innovative new products	IBM, Tesla, Gilette
Production	Competences in continuous improvement in production	Toyota, Samsung
Product design	Design capabilities	Apple, Dyson, Fiat 500
Marketing	Brand management and brand promotion	Procter & Gamble, Rolex, Nike Coca-Cola
Sales & Distribution	Efficient, rapid distribution	Amazon, Zara

Table 5.2 Examples of Functional Core Competencies

If the entire enterprise is to be examined for core competencies, the value chain should be used as the guiding framework. Certain core competencies will only develop across functional boundaries, while the company’s core competencies can be more clearly separated from suppliers’ competencies. The systematic classification along the value chain makes it clear that core competencies can be identified in principle in every activity in that chain – on both the corporate and business unit levels.

However, core competencies should be viewed not just from an internal but also external point of view. The question that needs to be answered is: In which future markets can the enterprise’s core competencies be applied? A market-based analysis can be performed using Hamel and Prahalad’s competence-product matrix (1995), which distinguishes between existing and new competencies and between existing and new product markets.

Compare and assess the strengths and weaknesses

Once the strengths and weaknesses have been determined, the second step comprises a comparison and an evaluation as to whether the business potentials can be qualified as

positive from a strategic point of view. The business potentials are compared against environment-based requirements; a distinction can be made between the following forms:

- Competitor comparison
- Cross-industry comparison (benchmarking)
- Customer-based comparison

Strengths and weaknesses are always relative parameters, i.e. the potentials must be placed in relation to those of the main competitors. For example, a company that regards its high levels of investment into research and development first and foremost as an absolute strength can soon see it change to a relative weakness if a competitor makes even higher investments. The competitor comparison, therefore, uses the information from the competitor analysis. An attempt is made here to determine the structure of competitors' value chains and to obtain important indications from a comparison. A value chain comparison in the furniture industry, for instance, reveals that IKEA has a cost advantage in every value-creating activity and achieves competitive advantages as a result. In contrast to a traditional furniture supplier, responsibility for assembly is borne by the customer at IKEA, meaning that the enterprise incurs low costs. Conversely, in a traditional furniture store, labor-intensive assembly leads to high expenditure.

Based on the American Xerox Corporation's experience, the mid-1980s saw the rise of the opinion that valuable indications could be obtained from a cross-industry comparison, known as benchmarking, in addition to the comparison with competitors. The companies compared may then operate in the same industry or be among the leading international companies across industries (best-practice companies). The enterprise compares the individual elements of the value chain with the industry leader to identify performance gaps. The most competition-oriented and achievable targets possible are set on this basis. The reasons for the greater efficiency or effectiveness of the benchmark company can be explored and lessons learned.

Example

Benchmarking based on the value chain at Xerox

The systematic application of benchmarking was first documented by the US Xerox Corporation. When Xerox's market share slumped in the 1970s from a 49 percent global market share in photocopiers to 22 percent, Xerox began in 1979 to analyze its manufacturing unit costs. The technical basis of the photocopiers was compared with that of competitors like Canon. Competitors' products were disassembled into their components, an exercise previously conducted by Chrysler, and the costs were analyzed as though these products had been manufactured in the enterprise performing the analysis. To explore further cost savings, the sales function was systematically examined. To obtain leverage points for improvements, a comparison was made with the sports goods mail order company L.L. Bean, well known for its efficient storage and dispatch system. The resulting suggestions for improvements subsequently led to significant cost reductions for Xerox and encouraged the company to realize benchmark projects in other areas, such as administration and customer services. ◀

To realize the competitive advantages, the enterprise must be familiar with what the customers want regarding market output.

Consequently, the company's value chain is harmonized with customer requirements by taking the following elements into account:

- Definition of the relevant market and the market segmentation
- Determination of the purchasing factors
- Comparison of purchasing criteria and value-creating activities
- Derivation of the strategic need for action

If the customer requirements and the level of in-house activities are not congruent, a strategic gap results, which implies the need for action. In extreme cases, the outcome is a sweeping strategic redesign of individual elements or the whole value chain.

Generate the strengths and weaknesses profile

The third step is generating the strengths and weaknesses profile, which makes it possible to design the corporate analysis in a more objective, transparent, and comparable manner, always subject to the proviso that having a genuinely objective benchmark is impossible. The scoring model is one suitable way of generating the profile in practice. The levels of the individual indicators are given point scores, which are then added up to give a total value ([Table 5.3](#)).

Corporate management thus obtains information about strategic strengths, weaknesses, and basic requirements. Strategic strengths form the basis of a competitive advantage and represent key competencies to be used in formulating the strategy. Strategic weaknesses make it clear that the enterprise lacks resources and competencies that must be eliminated. If the basic requirements can be developed using suitable strategies, they represent important sources of strategic competitive advantage.

In these analyses, it is often unproductive to create categories of opportunities, threats, strengths, and weaknesses since, as a rule, they require interpretation in enterprise-specific situations. Strong market growth may be a strength in one case but signify a threat in another if, say, the enterprise cannot procure sufficient resources to master the envisaged growth. On the other hand, an analysis of the environment and the enterprise is very good for identifying core problems that the enterprise as a whole has to resolve. It has the power to detect developments with regard to the key challenges and identify tentative solutions.

Success potential (Scale of -10 to +10)		Development in last 5 years	Comparison with competitor	Comparison with market development	Comparison with KFS	
		better same worse + 10 --- -10	better same worse + 10 --- -10	better same worse + 10 --- -10	better same worse + 10 --- -10	
Market position	Market share	+1	+5	-3	+7	+10
	Change in market share	+2	+2	-2	-3	-1
	Company image	+1	+2	+1	-2	+2
	Profitability	+3	-2	+2	+2	+5
Features of offering	Assortment width	-2	+1	+1	0	0
	Assortment depth	-1	+2	+3	+1	+4
	Quality of prod. and services	+8	0	0	-2	+6
	Price	+1	+2	-2	-1	0
	Service	+4	+3	-8	0	-1
	Delivery capability	+2	+2	0	-1	+3
	Locations	+2	+2	-10	+1	-5
Features of resources	Plant and equipment	+3	+2	+3	+2	+6
	Financial strength	+5	+3	0	+1	+9
	Structures and processes-	-5	0	-1	-1	-7
	Patents & licenses	+2	+2	+3	+1	+8
	Company name & brands	-2	+1	+1	0	0
	Marketing & sales competence	-3	-4	-2	+1	-8
	Production & procurement competence	-4	-2	-1	-1	-8
	Research & development competence	-3	-5	+1	+6	+5
	Quality & cost competence	+4	+7	-8	-3	0
	Management competence	+3	-5	-10	+2	-10
	Capacity to change	+3	+2	-1	-2	+2

Table 5.3 Strengths/Weaknesses Scoring Model

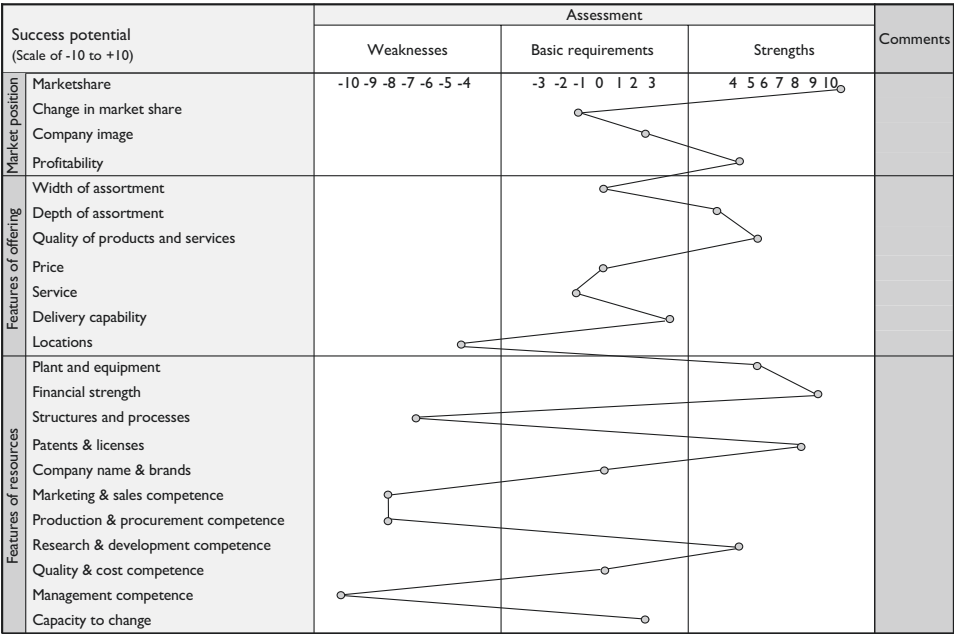


Table 5.4 Strengths/Weaknesses Profile

5.4 Strategic Analysis

5.4.1 SWOT Analysis

The results based on the analysis of the environment and the enterprise should not be viewed in isolation at this point but be aggregated and compared. In the SWOT analysis, concrete strategy approaches can be developed based on the strengths, weaknesses, opportunities, and threats identified. This creative task does not produce right or wrong results; rather, they are merely plausible or implausible. SWOT analysis is based on the assumption that an effective strategy maximizes strengths and opportunities and minimizes weaknesses and threats. It is a simple, flexible method of combining the opportunities and threats from the environment with the enterprise's strengths and weaknesses, and, ultimately, of developing a basic strategy.

The SWOT analysis can be shown in a matrix by entering the main strengths, weaknesses, opportunities, and threats. The previous environmental and enterprise analyses supply the strategically relevant information. The SWOT is, however, not only an analytically precise list of individual information, it also contains a holistic element.

Logically connected combinations are sought systematically by asking the following questions:

- Which strengths go with which opportunities (SO combinations)?
- Which strengths go with which threats (ST combinations)?
- Which weaknesses go with which opportunities (WO combinations)?
- Which weaknesses go with which threats (WT combinations)?

The SWOT combinations are given appropriate names; two-part or three-part combinations commonly result (e.g., S1/S5/O1). Four basic types of strategy are available to us (Figure 5.6).

SO strategies use internal strengths to realize external opportunities (ideal case). Typical strategies here are those focused on business expansion and the development of new services. This constellation is, therefore, ideal for the growth strategies outlined below.

WO strategies are aimed at reducing internal weaknesses or building strengths that might be lacking in order to take up external opportunities. The intention is to transform weaknesses into strengths in the medium term. Typical WO strategies include human resources development or alliances with other companies.

With ST strategies, we use our strengths to reduce or avoid external threats. If, for example, the success potentials in our own industry are threatened by statutory regulations, diversification into another industry could be planned.

Environmental factors Corporate factors	Opportunities 1. Increase in personal income in Europe by 4 % annually 2. Global increase in health awareness 3. Trade agreement with Korea and Indonesia 4. ...	Threats 1. Increase in legal restrictions in EU area 2. New foreign competitors 3. New competitors in North America 4. New
Strengths 1. Strong cash position 2. Research & development 3. Employee motivation 4. ...	SO strategies a) Develop new health products (S2/S3/O2) b) Purchase a food manufacturer with a strong position in South-east Asia (S1/O3)	ST strategies a) Dramatically increase advertising spend (S1/T2) b) Develop new, innovative products in traditional food segment (S2/S3/T3)
Weaknesses 1. High personnel costs 2. Poor marketing in UK 3. Only 65% capacity utilization in Europe 4. ...	WO strategies a) Enter into a joint venture with a Korean company (W2/O1) b) Relocate production to Indonesia (W1/O2/O3)	WT strategies a) Close unprofitable operations in southern Europe (W3/T1) b) Diversify in non-food segment (W1/T3)

Figure 5.6 SWOT Matrix – Biotech Company

With WT strategies, we attempt to lessen environmental threats by reducing internal weaknesses. Since the combination of weaknesses and threats is the worst-case scenario for an enterprise, these strategies are normally given top priority. An enterprise that displays a large number of combinations in this strategic field is in a critical situation and is forced to adopt defensive strategies (e.g., sale, liquidation, turnaround).

The creative part of any SWOT analysis is elaborating on possible strategic approaches, which goes far beyond pure analysis. At this point, the issue is not to decide on individual strategic approaches but to develop various possible, attractive, and feasible strategies. Every strategic approach is linked to its underlying SWOT.

However, the SWOT analysis should not encourage the enterprise to enter only those areas or those markets that promise success today. From the long-term point of view, strategies should be developed that seize future opportunities and eliminate current weaknesses. In selecting a strategy of strategies, therefore, a long-term perspective aimed at external opportunities and threats should be adopted.

5.4.2 Strategic Rules

The analysis of the environment and the enterprise has shown that the identification and impact of the strategic success factors are of decisive importance to a company. The impact on performance has been proven in management research in a number of empirical studies. The PIMS program, the experience curve, the product life cycle, the demand life cycle and the technology life cycle should be mentioned here.

PIMS program

PIMS, or “Profit Impact of Market Strategy”, is a cross-industry, empirical study aimed at determining the degree of influence of certain factors on the performance of strategic business units (SBUs). Companies anonymously enter around 250 individual pieces of data into a central database at regular intervals. Most of these companies are from the USA. In addition to special analyses that are intended to enable them to review the success of their own business activities, the member companies receive general information on strategic corporate management issues through publications, seminars, and conferences. PIMS has its headquarters in Cambridge, Massachusetts. There are now branch offices in London and Cologne, and since 1984, the program has been collaborating with the Management Center St. Gallen.

The study attempts to answer the following questions:

- What determinants impact on Return on Investment (ROI) and cash flow?
- How do ROI and cash flow change when the strategy is altered?

On the basis of the results of the PIMS study, 37 independent success factors can be captured which explain approximately 80 percent of the variance in ROI (dependent variable). Nineteen success factors explaining approximately 70 percent of the variance impact on the free cash flow. These variables have crystallized seven key factors that can be viewed as general factors of influence.

- A high absolute and relative market share positively influences ROI and free cash flow.
- High market growth is indifferent to ROI and negative for free cash flow.
- The quality of the market outputs positively affects ROI and free cash flow.
- The value added per employee positively affects ROI and free cash flow.
- Competitive differentiation has a significant positive influence on ROI and free cash flow, but only if the company has a strong market position.
- High vertical integration in the value chain has a positive influence, but only in mature and stable markets.
- Investment intensity (fixed assets and sales as “working capital”) has a negative influence.

It is difficult to assess the quality of the PIMS program, as it publishes no precise information which can be analyzed in detail. In addition, with this method, only correlation, i.e. simultaneous occurrence of two variables, can be determined, but not causal relationships. PIMS therefore offers a helpful snapshot analysis, but forward-looking forecasts become highly problematic. Nevertheless, overall it is a remarkable endeavor to derive profit opportunities for individual strategic business units from constellations internal and external to the enterprise.

Experience curve

A further basis for deriving strategic rules is the concept of the experience curve (Boston Consulting Group 1972), developed at the end of the 1960s by Bruce Henderson, founder of the Boston Consulting Group. The experience curve says that unit costs can be reduced by 20 to 30 percent every time the cumulative volume doubles, although these experience curve effects will differ from industry to industry. Consequently, the market leader will be able to manufacture at the lowest unit costs, and the enterprise's market share will become a key parameter. The repetition of activities leads to individual and collective learning effects, which in turn leads to a reduction in manufacturing time and scrap rates. The elimination of process disruptions and improvements in production plants increase productivity.

Example

Competitive advantages from the application of the experience curve

Through high output, General Electric greatly reduced the direct cost of its cumulative megawatts. Because of its scale, General Electric operates at costs averaging 30 percent less than those of competitors Allis Chalmers and Westinghouse. ◀

Product life cycle

The findings of the experience curve and the analysis of the life cycle of products were later expanded by the Boston Consulting Group to form what is known as the product portfolio matrix. Cyclical product analysis provides the enterprise with a variety of insights. On the one hand, products are dynamized and positioned. On the other hand, conclusions can be drawn about the future growth of the enterprise. The life cycle can be structured into three sub cycles with different phases. A development cycle is followed by the market and phase-out cycles. The development phase consists of the ideas phase (product idea), the concretization phase (new product development plan), the research and development phase (product development), and the test phase (market studies).

The market cycle comprises the introduction, growth, maturity, and decline phases. If the maturity phase can be extended, this is known as a "relaunch". While costs are incurred only in the development phase, revenues then increase until a certain point is reached in the maturity phase. Cash flow, in contrast, does not become positive until the growth phase

and increases thereafter because of increasing revenues and relatively low marketing costs. The decline phase manifests itself in falling profit margins, losses of market share, and preparation for exit. The phase-out cycle primarily incurs various costs, with the possibility of continuing low revenues, say, from license fees.

Demand life cycle

On the one hand, the product life cycle is strongly shaped by a certain demand life cycle. As was already mentioned in the corporate analysis section, the development of customer needs is a material factor. The demand life cycle is formed by the trend in the need level. Different success factors can be found in the different phases, such as product/service innovation in the introductory phase and timing. Or when growth is slowing, differentiated products are required and it may be necessary to anticipate new needs at this stage.

Technology life cycle

On the other hand, the product life cycle is determined by the technology life cycle, also known as the S-curve according to Richard Foster (1986). The S-curve shows the performance of a technology as a function of the effort required to develop it. New technological products and services start with a low level of performance. The first phase of a technological innovation displays fairly slow progress. It is characterized by knowledge building, testing, and the solving of unforeseen problems. This is crucial insofar as a player offering new technologies cannot compete successfully with existing enterprises that have basic technologies.

Example

Voice over Internet Protocol

Voice over Internet Protocol (VoIP) was launched in the 1990s, but it was a long time before its players could compete successfully with traditional telephone companies. VoIP still required further development before it could offer services comparable to those of the traditional telephone service. Because many start-ups have invested in the development of the technology, however, VoIP is now a competitive alternative to conventional telephone technology. ◀

As a consequence, technological performance is accelerating at an above-average rate. Close to the performance limit, the marginal value of additional expenditure declines, and the development curve slows down. Concurrently with the slow-down, a new technology displaying a higher technical potential will be in the development process. The old technology will be substituted sooner or later, and the technological performance curve will start over again. The S-curve illustrates the importance of timing entry to the market with a new technology. An enterprise may even enter the market too soon and drive growth (Shane, 2005, 45). Most of the enterprises that placed their faith in electronic books are now facing financial problems.

The various strategic rules undoubtedly have theoretical and conceptual flaws and cannot claim any absolute validity. Some of them radically simplify the real problems and are situationally dependent on internal and external influences and conditions. However, the strategic rules develop sensitivity to problems and provide indications of possible future challenges. For example, the PIMS program structures strategic problems, outlines alternative solutions, and rectifies intuitively reached decisions. The experience curve indicates potential and provides pointers on the choice of strategy, with an increase in market share implying opportunities for cost advantages. The product life cycle develops a problem awareness of the symptoms of decline in products.

5.5 Strategic Framework — Vision and Mission

“If you want to build a ship, don’t drum up people to collect wood and don’t assign them tasks and work, but rather teach them to long for the endless immensity of the sea.”

Antoine de Saint-Exupéry

5.5.1 Vision and Corporate Principles

Strategic management contains long-term, holistic action programs to focus the enterprise’s energies on success potential. The building and maintenance of these potentials will create the competitive edge that gives the enterprise the scope to achieve its objectives, develop further, and grow. If we then position strategic management within the total complex of corporate management tasks, it takes an intermediate position, embedded in both normative and operational management (Lattman, 1995, 52).

The superordinate guidelines, the objectives, and the values within an enterprise are determined in normative management. In contrast to operational management, with its various functions that are distributed across many different people in the enterprise, normative management remains confined to the top management level or “inside the head” of the company owner and is therefore largely invisible, particularly in small businesses (Barrett, 2003, 43ff.). The company owner represents the official value system of the whole enterprise, and the overriding objectives are derived naturally from this system:

- In what industry does the enterprise operate?
- What financial objectives (revenues, cash flow, and profitability) are pursued?
- To what extent does the enterprise plan to grow?
- To what extent does the enterprise feel responsible for its employees or the region in which it is based?
- Is the protection of the ecological environment a relevant objective?

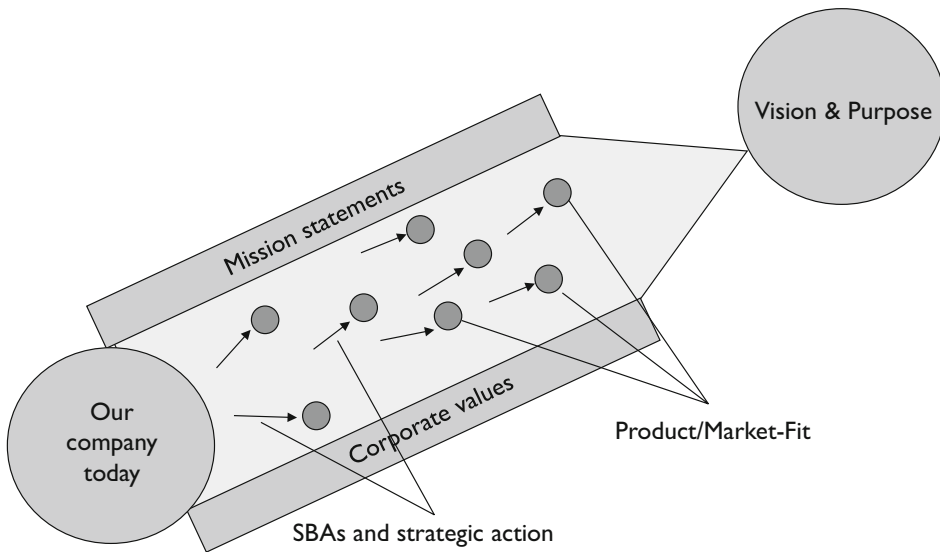


Figure 5.7 Strategic Framework

The corporate vision, positioned above the highest corporate objectives and defining the company's purpose, is at the root of the strategic development process. It is the subject of normative management and sets the initial direction for strategic development (Figure 5.7).

The business vision can then be concretized in the form of corporate principles. IBM was the first company to formulate written corporate principles. Its "fundamental beliefs" go back to IBM's founder, Thomas Watson, who explicitly pointed out the need for firm principles. "I firmly believe that any organization, in order to survive and achieve success, must have a sound set of beliefs on which it premises all its policies and actions. Next, I believe that the most important single factor in corporate success is faithful adherence to those beliefs." (Watson, 1966. 15f.).

Example

IBM's Basic Beliefs

- Customer service, Excellence, Capable management, Fairness to suppliers
- Recognition of obligation to stockholders, Responsibility towards the community
- Respect for the individual

Subsequently, these basic beliefs were refined and extended in various ways. IBM's beliefs and principles, which it is claimed apply within the company worldwide, spurred many companies to formulate similar principles. ◀

Example**Wal-Mart**

The principles initiated by Samuel Moore Walton, Wal-Mart's founder, still apply globally within Wal-Mart.

- “Offer the lowest possible price”, “Be bigger”, “Reduce your costs”
- “Don't stop reducing them; that way, you'll always be able to offer the best price”

The principles are the result of a multilayered process in the enterprise that can be described by a simple process model. ◀

View from the media: Nutella/Ferrero: nut fluster

Backlash over health is the biggest risk to the phenomenally successful brand
Financial Times, January 23, 2020

Spread the happy. If Nutella took its slogan to heart, it could circle the globe and back again. The nut-and-chocolate gunge is adored by kids and has its own world celebration day. In France, a 2018 supermarket promotion sparked a riot. Nutella has overtaken Marmite as Britain's favourite spread, and divides opinion as sharply. Its phenomenal success has made a mint for Italian multinational confectioner Ferrero, which also owns brands such as Ferrero Rocher and Kinder. The business, which grew out of a family bakery in the 1950s, might be worth as much as €50bn. The Ferreros would rank as one of the world's wealthiest families if we value their business using the same enterprise-to-sales ratio — 4.6 times — as Hershey, the US confectioner. They should get a \$714m dividend, according to Bloomberg. Their business is now at the sharp end of some difficult trends.

The silliest criticism of Nutella came from Matteo Salvini, leader of Italy's anti-immigrant League party. He is boycotting the spread because it contains unpatriotic Turkish hazelnuts. Deforestation caused by palm oil farming is a bigger issue. Ferrero says it has been using sustainable palm oil since 2014. The controversy has still opened the door to competitors with alternative recipes, including Milka and Lindt, says market research group Euromonitor International. A slowdown in the snacks market in Western Europe is another problem. Consumers are moving upmarket. The group's share of Europe's packaged food market fell slightly to 1.6 per cent in the two years to 2019. Spending more than \$4bn buying Nestlé and Kellogg's brands will increase US heft. Integration could prove taxing.

A backlash over health is the biggest risk. Sugar, the new pariah substance, makes up more than half the weight of a jar. In 2012 Ferrero agreed to set aside \$3m to settle a class-action lawsuit filed by a California mother. She had been surprised and upset to learn Nutella was not a “healthy, nutritious” food. She was widely mocked. But as the costs of obesity rise, so will taxes on foods like Nutella.

www.ft.com/content/b25645d5-4165-47e2-835b-b1b273f3f372

5.5.2 Corporate Political Process

There are a large number of groups that have some kind of relationship with the enterprise, and they all have a direct or indirect influence on what happens within it, particularly on the objectives it pursues. This process can be illustrated using a model of the political system in which three different groups are involved: the core group, the internal stakeholders, and the external stakeholders.

The concept of the model assumes that the core group takes authorized decisions that are binding on the members of the enterprise in terms of its general objectives and behavioral principles. However, it is not necessarily the case that the core group can exercise actual power of control over the enterprise in every situation. How the corporate political process is conducted and where it ends, that is, what fundamental objectives and behaviors are decided, depends on two other parameters: first, on the values represented by the members of the core group, and second, on the effective power constellation of the stakeholders involved. Every group has a number of claims or values that are not congruent with those of other groups and, in some cases, may even be in conflict. For example, the providers of equity capital have an interest in achieving the highest possible profit distribution, whereas management is more concerned with improving the creation of reserves. It is never an adequate solution to satisfy the demands of one group at the expense of those of another. Each individual group of stakeholders has a certain threat potential for the enterprise that can be exercised if that group's own demands are not adequately met. Corporate management has a responsibility toward several groups, not to individual ones. It is entrusted with the risky balancing act of simultaneously satisfying a multitude of demands. And it is not only demands and value ideals that are bound into the corporate political process, but information, too.

Depending on the nature and origin of the information, the information base of corporate policy (and the subordinate corporate planning) can be divided into:

- Corporate analysis, which should lead to the determination of the enterprise's strengths and weaknesses; and
- Environmental analysis, which is when opportunities and threats in the environment should be recognized in good time.

The political process is characterized by pressure and counterpressure exerted by different groups. Therefore, the term "corporate politics" can be taken quite literally. This is not just about the "top management technique" of an enterprise but also about its policy (Ulrich/Fluri, 1995, 65ff.). Corporate politics is a dialogue with the demands and values ideals of all those involved in the enterprise or groups affected by its actions. It attempts to create a sound basic consensus and is aimed at always maintaining sound relationships with all groups.

The core group is responsible for ensuring that existing corporate policy is in line with the enterprise's limited resources and possibilities and in harmony with the environmental conditions.

5.5.3 Corporate Policy Decisions

“Where there is no agreement on the fundamental, it makes no sense to join together in making plans.”

Confucius

As the outcome of the corporate political process, normative decisions have to be made about general objectives and behavioral principles in future corporate development. Three features characterize corporate policy decisions (Ulrich 1990, 18ff.):

These are the fundamental decisions that cannot be derived from senior-level decisions.

- Corporate policy decisions are not highly concretized, are general, and relate to the enterprise as a whole. They have the character of framework decisions that are suited to defining the decision-making scope on lower management levels.
- In line with their intentions, corporate policy decisions have long-term validity without a specific time horizon being stated. They apply, as it were, provisionally and have to be revised if the results of corporate development or fundamental changes in the environment indicate a need for repetition of the corporate political process.

These fundamental, general, and long-term decisions may either exist solely in the minds of the entrepreneurs and the management, or they can be set down in writing. Enterprises will be more inclined to fix them in written form as a corporate mission statement if they are aware of the purpose of such a statement: as a guiding framework. It is intended to create an “*unité de doctrine*” and is a “*realistic ideal picture*”, a guiding star, on which all business activities are based (or should be based).

Beyond the fundamental purpose of a guiding framework, the corporate mission statement may also undertake legitimization, information, motivational, and public relations functions. The mission statement mainly gives the enterprise legitimacy vis-à-vis external stakeholders. In recent mission statements, for example, the priority given to ecological issues is striking. A mission statement’s motivational function lies in the fact that it can form a basis for or reinforcement of identification with the company. The mission statement provides information when it enables people, say, new employees, to become systematically acquainted with the general objectives and behaviors of the company. Finally, mission statements can play a public relations role: If they are announced externally, interested parties and the public can get a clear picture of the company’s policy decisions. However, this function should not be allowed to come first. Otherwise, the presumption will soon arise that the mission statement is not aligned with the enterprise’s actual conduct.

In addition to fundamental objectives and behaviors, a written corporate policy may also contain a management system. A management system is understood to mean the entire set of tools, rules, and processes that management uses to perform its function. In the last few years, the literature has been deeply engaged with the development of holistic management systems (often called management models, leadership models, leadership, or management concepts). In accordance with situational thinking, however, indi-

vidual enterprises cannot adopt all too rigid and dogmatic concepts in ready-made form. Whether corporate policy is part of the written management system or vice versa can be defined in different ways. The first of these options is governed by the development of the functional management system. Ulrich (1990) chose the second way. He assumes that the underlying methods also have significance in corporate policy. The components of such systems are closely linked and overlap in places. If the system is to satisfy the ever-increasing demands on its ability to function, it is a mandatory requirement for the management system as a whole for the two to be coordinated. The management system's ability to function is, of course, a very vague formulation of this requirement. It can, however, be defined more narrowly by highlighting the specific requirements of an enterprise's management team in different phases of corporate development. For example, the efficiency criteria of a management system will particularly emphasize the planning function in the start-up phase and will (have to) look different from those of a mature international corporate group.

5.5.4 Corporate Mission Statement

The company's general objectives and behaviors are recorded in succinct form, but from a holistic point of view, in the mission statement. This is the enterprise's underpinning document, which is often split into three parts:

A preamble (introductory remarks) in which the purpose of the mission statement is set forth:

"Our mission statement is our pledge on the way to the future (...). This mission statement is based on a large number of assumptions. Should they prove to be incorrect, we will make the necessary corrections. We will also adopt new ideas and continue to develop the mission statement"

The second part is related to the enterprise's field of activity (products and markets) and overarching objectives.

Example

Legal Sea Foods

We pledge:

To inspect and prepare the freshest, highest quality fish and shellfish.

To assure you of a clean and comfortable environment.

To promote diversity and respect for all human differences.

To provide prompt, friendly, and courteous service by a knowledgeable and highly trained staff.

To be sensitive to special dietary needs and provide a list of ingredients upon request.

To deliver all foods and beverages prepared to guest satisfaction in a timely and efficient manner.

To feature a wine list that represents the best overall value in America.

Respond rapidly, sensitively, and non-confrontationally to requests that will enhance your dining experience.

To provide you with an experience that will encourage you to return. ◀

The core of the corporate mission statement refers to relationships with internal and external stakeholders. The basic approach to resource procurement (particularly investment financing), resource transformation into market outputs (e.g., research and development), and market output sale (particularly marketing) are often added to this.

There are no binding rules for the detailed structuring of a mission statement. One possible method is the corporate mission review questionnaire by Ulrich (1990).

- Does the mission statement contain the fundamental decisions?
- Have the principles been formulated in both general and concrete terms?
- Is the mission statement designed for the long term?
- Is the balancing act between the interests of internal and external stakeholders adequately expressed?
- Has the mission statement been elaborated by the owner and executives themselves?
- Do the owner and the executives act as role models in “living” the mission statement?
- Is the mission statement accepted and complied with by the employees?
- Can compliance with the guiding principles be verified?

In practice, this system should be used to formulate those statements that are vital to the enterprise and its relationship with its environment. The aim should be to make a complete list, not of every conceivable factor, but of the decisions that are of importance to corporate policy.

Formulating the mission statement concisely is often a problem. A balancing act between empty phrases and detailed instructions has to be successfully managed. On the one hand, the statements have to be solid enough to act as guidance, on the other they have to be general enough not to cramp the creative freedom of executives and employees too much. A proven principle is to make statements only when there is a genuine alternative to them. This restriction does not apply if a principle is to be particularly highlighted (although the principle is, in any case, the only useful course).

Mission statements are now very popular. Not just large companies like IBM, Nestlé, or Google but more and more medium-sized and small companies, publicly owned organizations, and not-for-profit institutions have written mission statements. A simple classification framework may be of use to those trying to find their way in all this confusing variety.

The area to which the mission statement’s messages apply and the style of address used are taken as the framework’s dimensions. A distinction is made between internally oriented and externally oriented messages. Internally oriented messages contain principles that address conduct toward employees and executives in other words, internal stakeholders. Externally oriented messages focus on principles of conduct toward external stakeholders, such as customers, suppliers, competitors, the state, and society. The style of address used distinguishes between the opposite poles of rational and emotional communication. For example, the following messages would tend to be ranked as rational:

Examples

Rational Messages about Closeness to the Market

We are aware that our executives and specialists crucially determine our company's success. We therefore demand, in particular, that they identify fully with our corporate policy and objectives of innovation, flexibility and cooperation, cost awareness, and exemplary management conduct (Hilti). ◀

Mission statements should not be positioned in the classification framework on the basis of individual principles cited as examples. The classification has to take the whole text into account and incorporate not only questions of content but also the external appearance, particularly the linguistic form and graphic presentation. As a result of the classification, four general categories can be identified, characterized by different purposes: Mission statements with legitimization or PR functions are aimed primarily at the external area, and those serving information or motivation purposes within the enterprise are internally oriented.

The classification matrix provides a rough but useful guide for comparing and assessing mission statements. The positioning of a corporate mission statement within the framework may be an opportunity to review the existing version, design a new one, or add to it with new management tools.

If a corporate mission statement enters the arena of PR, the enterprise may be inclined not only to write a mission statement but also to define guidelines tailored to the internal area. This approach can easily lead to fundamental corporate policy decisions being omitted because two unrelated concepts are being added together: a “corporate mission statement” is developed that consists mainly of messages about relationships with external stakeholders. The internal sphere is covered by a separate document containing guidelines for management and collaboration within the enterprise — management guidelines or management principles (Fuchs et al. 2023, 124ff).

With the additive strategy, the risk is that the fundamental corporate policy problem can be overlooked. The most important task of corporate policy is to harmonize the interests of internal stakeholders so as to achieve a balance between enterprise and environment. This balancing act should also be expressed in the corporate mission statement. Management and collaboration principles, therefore, should not be viewed separately from the corporate mission statement; they illustrate one section of it. Although the corporate mission statement and the management principles are related concepts, they differ significantly from one another in substance. Corporate mission statements or corporate principles relate to the enterprise as a whole, are aimed at internal and external parties, and consequently are concerned with several addressees simultaneously. For example, they contain messages about the relationship of the enterprise with customers, competitors, suppliers, investors, the state, executives, and employees.

Management principles or guidelines for management and collaboration contain written statements intended to serve all managers and staff as guidelines for the details of leadership and vertical and horizontal collaboration. They include, for example, statements about management by objectives, delegation, cooperation, and employee development and control.

5.5.5 Way to the Mission Statement as an Objective

Corporate mission statements and management principles are not without controversy. Doubts have been expressed in various quarters as to whether these statements and principles express a recognized basic consensus. As a general rule, they are unilateral declarations of intent or catalogs of demands by the corporate management, which sometimes presume to impose a code of conduct on the “servants”, almost in the style of a landlord or factory owner. In general, management principles are issued from on high.

This criticism illustrates the fact that the effectiveness of mission statements is closely linked with the approach used in the development and introduction phase. It has been shown that the “way to the mission statement” has, for many enterprises, become the real objective. The development of mission statements in several companies has been analyzed on various occasions. It has been found that enterprises assign the most value to the corporate political process. The development phase was classed as more important than the finished document.

If they are to trigger the intended effect within the enterprise, corporate mission statements should be developed through a process of participation by representatives of all levels of the hierarchy. The more the mission statement is intended for internal stakeholders, the more important it is that various hierarchical levels and stakeholders participate in its development. Three forms of participation can be distinguished.

- The top management team is solely responsible for creating the mission statement. This approach may lead to the mission statement containing only the values and interests of a relatively small group of people.
- Middle managers and experts from staff departments, organized into project teams, are involved in developing the mission statement. The interests and prevailing behaviors are captured by employee surveys. This approach makes it probable that the significant values and interests will be adequately catered for and that the mission statement is accepted by a large proportion of the employees.
- Once again, the mission statement is created by a project team. In the first step, the project team designs a rough mission statement. Then, the ideas and opinions of internal and external stakeholders are incorporated in numerous consultation processes. This approach enables a direct influence on the new mission statement, and is likely to have a long-term impact on the corporate culture.

Even with large-scale involvement, not all employees are informed about mission statements. To implement the general objectives and behaviors, a series of measures is required that ensure that mission statements are publicized, disseminated, and used in the enterprise.

Here are two measures extracted as examples from a wide-ranging arsenal of methods:

- Reformulation of the mission statement into easy-to-follow guiding principles for employees.
- The concept of workshops that are intended to mobilize all levels of the enterprise in implementing the mission statement.

Mission statements are generally available in the form of documents that are hard for grass-roots employees to understand and have no emotional resonance. The wording is too terse and precise to be suitable for passing on to all staff. “Popularization” is, therefore, essential. Documents that are reformulated to suit every level and address all the employees in an enterprise can be described as guiding principles for employees or staff guiding principles. They are normally comprised of short, memorable messages about conduct toward customers, about characteristic product (or service) features and guidelines for personal conduct. Staff guiding principles and information events create awareness and a sense of renewal, and arouse expectations. However, they do not lead to an in-depth understanding of the principles — above all, not of their consequences for the employee’s personal conduct. The entire enterprise will be mobilized as desired only if the executives and employees who were not involved in developing the mission statement get the opportunity to discuss it actively in workshops.

The mission statement should filter down through the company from the top down using “mobilization workshops”. Three issues have to be addressed here:

- What is behind the mission statement and the staff guiding principles (reasons, purpose, background information)?
- Many employees initially lack an understanding of why these objectives and behaviors in particular are being pursued. However, they will accept only what they can understand. They want an opportunity to ask their personal questions.
- What is to be done on the employee’s own level?
- It is far from possible to dictate all measures from above. Companies therefore strive to trigger the personal initiative of all executives and employees. Again and again, the results that are achieved through such workshops have proved astonishing.
- What does that mean for me?
- Only when everyone is “rowing in the same boat” and in the same direction will the mission statement have its intended effect. The ultimate aim is to achieve changes in personal behavior. These changes require information, insight, and involvement. The workshops have to work out what the mission statement demands of every individual — often in contrast to previous behavior.

It is best to conduct these mobilization workshops over a day under the guidance of the employee’s manager and, if possible, presided over by a host. It is crucial for all managers to use the same lines of argument and support the cause with the same level of commitment. And finally: for all the methodology, it should not be forgotten that mission statements should be designed for the long term. There is a danger that less attention is paid to the mission statement after the initial euphoria wears off and that employees then return to their customary behavior patterns. To help prevent this, ongoing training should be a permanent feature of management practice, and the mission statement should be adjusted when changes occur in the company.

Examples of mission statements

Patagonia: “Build the best product, cause no unnecessary harm, use business to inspire, and implement solutions to the environmental crisis.”

Cisco : “Shape the future of the Internet by creating unprecedented value and opportunity for our customers, employees, investors, and ecosystem partners.”

Shopify’s mission statement reads: “We help people achieve independence by making it easier to start, run, and grow a business. We believe the future of commerce has more voices, not fewer, so we’re reducing the barriers to business ownership to make commerce better for everyone.”

Nike: “Too bring inspiration and innovation to every athlete in the world. If you have a body, you are an athlete.”

Starbucks: “Inspire and nurture the human spirit — one person, one cup, and one neighborhood at a time.”

The Whole Foods : “Our deepest purpose as an organization is helping support the health, well-being, and healing of both people — customers, Team Members, and business organizations in general — and the planet.”

TOMS Shoes: “Improving lives. One for one. With every product you purchase. Toms will help a person in need. ONE FOR ONE.” ◀

5.6 Strategy Development

“Business is like war in one respect: if its grand strategy is correct, any number of tactical errors can be made and yet the enterprise proves successful.”

Alfred D. Chandler

5.6.1 Levels of Strategic Planning

Thinking in strategies and strategic alternatives is an important tool for securing corporate performance in the long term. But what is understood by a corporate strategy? Typically, the following characteristics are associated with the term corporate strategy or strategic decisions:

- Strategies determine the field(s) of activity or domain(s) of the enterprise.
- Strategies are competitive, i.e. they determine the enterprise’s action program in relation to competitors, e.g. in the form of imitation, cooperation, domination, or differentiation.
- Strategies relate to environmental situations and developments, opportunities and threats. They react to external changes and/or attempt to influence these actively for the benefit of the enterprise.
- Strategies relate to corporate resources, to the strengths and weaknesses of their position relative to competitors.

- Strategies reflect the core attitudes, wishes, and values of the key decision-makers.
- Strategies are focused on the entire business, i.e. they strive to focus business activities holistically on the strategic objectives. They are frequently formulated and documented as a kind of total plan.
- Strategies are of major long-term importance to a company's asset and earnings position and have far-reaching consequences for the commitment of resources; they are "big" decisions.
- Strategies are future-oriented, they are based on long-term expectations about the enterprise's own competences and environmental circumstances.
- Strategies may be, but are not necessarily, the result of a systematic planning process.

To sum up, it can be said that strategies provide answers to three fundamental questions of strategic planning:

- Which business areas do we want to operate in?
- How do we want to compete in these business areas?
- What is the basis for our long-term success (core competence)?

The first question relates to the choice of domain, i.e. product market, in which the enterprise intends to operate. This question is not meant as a description of the status quo, but demands an answer to the question of the business(es) in which the enterprise wants to operate in the future, in other words whether it wants to remain in its old business, develop a new one, or diversify. A business area or domain is not only defined by the product line but may equally well be determined in terms of customer groups or user problems. Many enterprises operate in several domains.

The second basic strategic question is founded on building a profile in opposition to competitors in the selected business areas. This demands an answer to the concept and direction of thrust to be used to face competitors. For example, does the enterprise wish to build a profile as a niche or focused player, does it want to become the market leader in the standard class on the basis of lower-cost production than competitors', or would it prefer to differentiate its product line from those of competitors with quite specific features?

The third basic strategic question relates to the enterprise's own resources and its potential to offer a long-term basis for success, beyond individual market fads. Overall, strategic planning strives to secure the survival and profitability of the enterprise on a permanent basis, i.e. the enterprise examines whether it can still compete successfully in the future in its present business areas with the competitive concept it has currently chosen, or whether new business areas have to be sought and/or new competencies developed. The above discussion of the concept of strategy demonstrates that an enterprise always has to provide an answer to all three basic questions, regardless of whether it uses a planning process or intuition. Even the formation of an enterprise requires a strategy as described above to be in place, whether this is reflected in every individual case or not.

From this point of view, strategic planning does not introduce strategies into the enterprise. Rather, it promotes and systematizes reflection on the core strategic issues and their practical implementation. It is rare for strategic planning to take place in the rigorously

systematized sequence described schematically in the following sections. Strategic decision-making processes, like all others, are also organizational decision-making processes, i.e., they are embedded in organizational processes and are obscured, promoted, hampered, etc. by them.

Example**Netflix and its expansion to 190 countries**

In 1997, Reed Hastings and Marc Randolph founded Netflix in California, motivated by a \$40 late fee that Hastings had incurred for not returning a video for six weeks. Initially offering both the sale and rental of DVDs by mail, the company shifted its focus to solely DVD rentals after just one year. In 2007, they launched their streaming media service and made video on demand available via the internet.

Beginning in the United States, Netflix took its first step into international waters in 2010 when it launched services in Canada. The next markets were chosen based on similarities to reduce potential difficulties associated with cultural and geographic differences. In addition, expenditure and risk were tied down by providing limited offerings and collecting data on what users liked so they could tailor programming and investments according to preferences.

Following this model, the streaming giant methodically extended its reach to Latin America & the Caribbean (2011), Europe (2012), Australia, New Zealand, and Japan (2015). By 2016, it had become a global brand operating in 50 countries. By that time, over 20 original shows had been released, with the first non-English language series demonstrating their emphasis on localization through subtitles and dubs. This ensured that the content was accessible to as many people as possible.

Netflix utilized data to choose their next markets and create content suited to each targeted region. Using personalization algorithms, Hastings and Randolph were able to comprehend global user preferences and behavior, allowing them to come up with a content plan specifically for every market, which was essential for their success. Not only did Netflix localize content, but also developed original material based on regional inclinations. Recently, the company has taken this strategy of making localized content and modified it so it could simultaneously go global.

Despite its wide success, Netflix encountered a few obstacles along the way. These included the lack of high broadband internet penetration in certain areas, credit card payment being illegal in some countries, and accessibility issues regarding pricing. Legal issues and controversies surrounded Netflix as well. Some of the difficulties that had to be addressed were the legal complaints from Saudi Arabia and Australia's refusal to classify the company as a technology company.

Netflix also encountered difficulty in places such as China, North Korea, and Saudi Arabia due to censorship regulations. To adhere to the local beliefs and societal values, they had to either adjust or completely eliminate any material connected to drug use, drinking alcohol, or sexuality.

Nevertheless, thanks to thoughtful preparation and implementation, Netflix managed to successfully extend its reach around the world. In only seven years, it has

become available in over 190 countries and has recently accelerated its growth rate. With over 73 million subscribers located in the United States today, Netflix has more than 222 million subscribers across the globe — far exceeding all other pure streaming services combined (Brennan 2018). ◀

In line with the basic strategic questions, two planning levels can be distinguished in strategic planning:

- The corporate strategy level
- The business strategy level

The corporate strategy determines the enterprise's business areas and distributes resources across those areas in line with the strategic objectives. These are not just questions about a simple description of the status quo. They demand answers as to the businesses in which the enterprise wants to operate in the future, whether it aims to remain in the old business, develop a new one, or diversify. For example, BBC (Brown Boverie & Cie) 's decision to merge with ASEA can be assigned to the level of corporate strategy.

In contrast, how the enterprise will compete in a specific business area is determined by its business strategy. A business is not defined solely by its products and services. It can equally well be determined by customer groups, such as private and public clients, or user problems, such as new construction or the renovation of period buildings.

The business strategy considers how the company wants to position itself, with what products, and in which markets. It is assumed that conditions in the business areas, in respect of both the internal and external situation, may differ radically. A particular strategy is therefore needed. If an enterprise seeks to create a profile for itself as a focus or niche player, it could become a market leader in the standard class through low-cost production or could use special features to distinguish its own product line from that of competitors. If it only has one business area, the distinction between corporate and business strategy is superfluous.

Underlying these two strategic levels is the question of core competence, in other words, the success potential of the strategic resources. These are known as functional strategies, that is, strategies for the individual functional areas, such as marketing, human resources, procurement, or manufacturing. They could be termed resource strategies through which the enterprise can develop competence-based advantages through above-average performance.

Depending on the point of view, however, the operational functions may simply be understood as subordinate tasks. The operational functions are responsible for developing programs that enable the strategy to be transformed into concrete action. Instead of functional strategies, therefore, they are also termed strategic programs for functional areas.

Finally, then, it should be noted that strategy development is ultimately also about preparing the planning for the practical implementation of the action guidelines that have been acquired by analysis. In it, measures are concretized that appear critical for the implementation and success of the defined strategy. On the basis of the success factors applying to a strategy, key functional strategies are developed that set the core guide points for operational planning.

5.6.2 Strategic Segmentation

The division into corporate strategy and business strategy assumes that the company conducting the strategic planning operates in different areas of activity. The superordinate corporate strategy answers the question of the strategic business areas (SBA) in which the enterprise should operate and the relationship of these areas to one another. In a business strategy, the primary problem is how to compete in a precisely defined product/market area.

The definition of the business areas or relevant markets can have a strong influence on the enterprise's strategic scope of action. Although there are areas of activity in many enterprises (such as departments, offices, branches), as a rule they are formed according to quite different aspects (e.g. organizational, sales-related, legal). They are therefore suitable only for strategic analysis or as a framework for the definition of a strategic business area in exceptional cases. The question of defining the relevant market has a long tradition. In economics, the lack of a relationship of substitution between the products (substitution gap) is taken as the defining criterion. Strategic market definition pursues a more specific objective. The enterprise performing the analysis and the search for the appropriate competitive strategy are the main factors here. The core defining criterion is therefore strategic independence, in other words, the possibility of developing an independent competitive strategy for the business area in question.

It has proven useful to base the definition of strategic business areas on attributes that are derived from the products and markets. The reference framework for the formation of strategic business areas can be interpreted dynamically. Customer problems are solved by means of certain technologies that are used to produce certain products and services. These pass to selected customer groups through certain sales channels. In creating strategic business areas, the competitive structure has to be taken into account. The regional aspect also plays a role, particularly in building the profiles of the individual business areas and embedding them in the organization.

The attributes for the definition of strategic business areas can be epitomized by seven review questions.

- Does the area satisfy a distinct and permanent need of a clearly definable target group?
- Can a separate strategy independent of other business areas be pursued (independent presence and activity in the market)?
- Is an independent market output (products and/or services) possible?
- Would it be possible in principle to assign responsibility for the business area to a meaningful organizational unit?
- Are sound prerequisites in place for cost-efficient processes and, therefore, substantial rationalization opportunities?
- Can the income generated and costs incurred by the business area be allocated to it?
- Would the business area be viable on its own in the long term?

The most detailed possible definition of the strategic business areas is intended to focus the strategies on the different competitive circumstances. If the number of strategic business areas is large, however, there is a risk that the administration costs will rise disproportion-

ately. In practice, it is often difficult to find the right path between these requirements; the appropriate definition is often reached only after several trials.

Example

Glencore and its core business

Green fantasies are good, but in the end, it's the money that counts: Glencore shareholders commit to the coal business. The commodities giant wanted to spin off its coal business. In August 2024, the shareholders are forcing CEO Gary Nagle to change course. His attempt to polish up the Group's image is being put to the test.

The CEO of Glencore, Gary Nagle, has a goal: the CEO of Glencore wants to turn his company into a commodities company with a clean and attractive image. This starts on a small scale. Nagle told the NZZ in an interview after taking office in 2021 that employees need to feel comfortable in the company, which is why he abolished the tie requirement. The South African also wants to cultivate a sociable company culture and likes to present himself publicly as approachable.

However, the 49-year-old has not yet achieved his goal. Nagle needs to polish the company's reputation. But how do you lead a company that still earns a significant proportion of its money from fossil fuels into a clean future? Especially when its shareholders are pushing to keep an environmentally damaging business, such as coal production. ◀

In practice, we distinguish two approaches for the process of defining SBAs. The first type (inside-out segmentation) is based on an enterprise's existing product line and concentrates on the criteria of "products" and "customer groups". The second approach (outside-in segmentation) is directly geared towards the requirements of the environment.

With the inside-out method, an enterprise's existing offering is taken, and a two-dimensional product/market matrix is created (Figure 5.8).

The matrix shows product-market combinations that are already covered by the enterprise and provides indications of potential new areas of activity. The product-market combinations are then aggregated into homogeneous SBAs. The extent to which combinations are aggregated into an SBA depends on strategically relevant criteria; whether, for example, the same technology is used or commonalities exist in customers, competitors, or suppliers, and/or mutual dependencies are present (for example, in pricing policy, product policy, synergies).

Outside-in segmentation focuses directly on the needs of stakeholders rather than on existing structures and product-market combinations. Therefore, different attributes are decisive in defining SBAs. Customer problems, technologies, products and services (market outputs), sales channels, and customer groups should be mentioned here, among others. A reference framework for defining business areas can be created on the origin of the following dimensions customer functions, potential customer groups, and alternative technologies (Müller-Stewens/Lechner 2016, 166).

Based on relevant information, homogeneous business areas can be defined as, on the one hand, combining needs, customer groups, and technologies and, on the other, showing similar prospects of success and can be managed. This simplified framework for forming SBAs can be interpreted dynamically. Customer problems are solved by utilizing certain technolo-

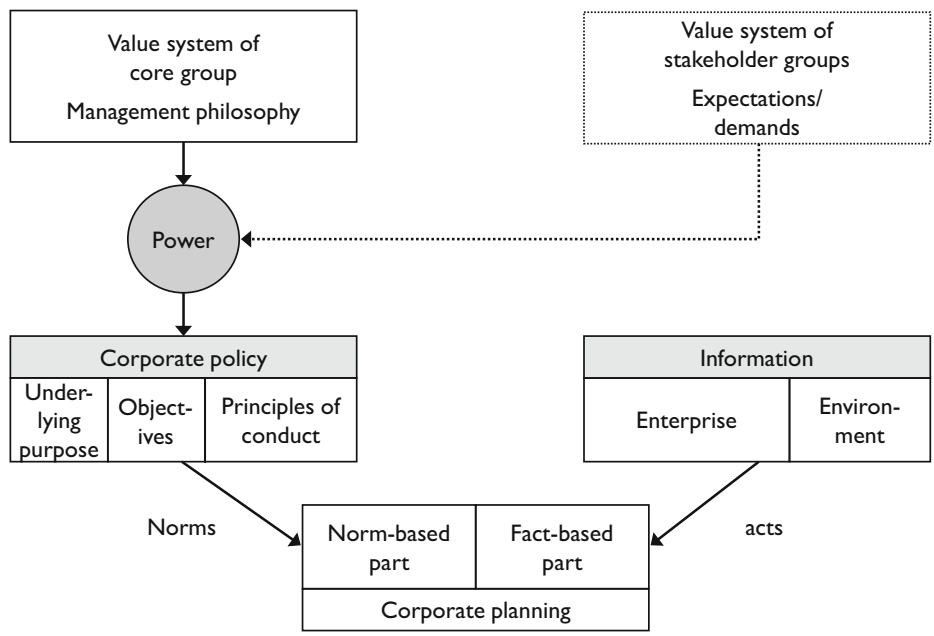


Figure 5.8 Designing a Corporate Policy

gies with which certain products and services are produced. These pass to selected customer groups through certain sales channels. The competitive structure has to be taken into account in creating SBAs. The regional aspect also plays a certain role, perhaps less in the definition of the business areas than in building their profiles and embedding them in the organization.

Example

Strategic business areas from renowned companies

Apple Inc.:

Consumer Electronics: This SBA includes iPhones, iPads, Macs, and Apple Watches, focusing on integrating hardware and software to provide seamless user experiences.

Digital Services: Encompasses the App Store, Apple Music, iCloud, and Apple Pay, which are central to Apple’s strategy of generating recurring revenue through services.

Google (Alphabet Inc.):

Advertising and Search: Covers all aspects of Google’s search engine and advertising services, including AdWords and AdSense.

Technology Solutions: Includes Google Cloud, Android, and hardware products, like Google Home and Pixel smartphones.

Siemens:

Smart Infrastructure: Focuses on technologies that modernize infrastructure elements, including smart grids and building technologies.

Digital Industries: Targets industrial automation and digitalization, providing software and IoT integration for factories.

General Motors:

Electric and Autonomous Vehicles: Concentrates on the development and production of electric vehicles (EVs) and autonomous driving technologies, signaling a strategic shift towards sustainable transport solutions.

Mobility Services: Focuses on car-sharing services and logistics solutions that adapt to the changing consumer behaviors around vehicle ownership.

Amazon:

E-Commerce and Retail: Involves online retail operations, including Amazon Prime and logistical capabilities.

Cloud Computing and AI Technologies: Covers Amazon Web Services (AWS) and its AI initiatives, crucial for providing cutting-edge technological solutions to businesses. ◀

The counterpart to the SBAs is strategic business units (SBU). While the SBAs segment the enterprise's environment (external segmentation), the SBUs segment the enterprise (internal segmentation). The SBAs, based on environmental segmentation, are mainly just conceptual constructs (Link 1985, 52). This external view is aimed at ordering and structuring the environment clearly and forming independent segments. SBAs are not tied to the existing SBU structure. Their purpose is to serve as a tool for planning effective strategies and capabilities.

In contrast, the SBUs are genuine parts of the organization and are always linked to the definition of the SBAs. An SBU can be responsible for one or several strategic business areas. SBUs are a management tool for the implementation of the SBA strategies. The defining criteria are independence, identifiable competition, manageability, and the use of resources. An SBU can easily operate in several strategic fields. For example, the Philips Group has eight business fields: consumer electronics, components (PC and TV tubes), lighting, semiconductors, professional equipment and systems, medical technology, domestic appliances, and IT services. In-house, the company has 80 strategic business units that handle the eight SBAs. SBUs are not always obviously recognizable from an enterprise's organization; they can, but do not necessarily, reflect the organizational structure.

Four different forms of interaction between the SBUs and the organizational structure can be cited (Wittington et al. 2023, 267.):

- SBUs and organizational units are identical. The SBUs are used as the real organizational structure, enabling internal complexity, clear responsibility assignments, and a speedy reaction to environmental changes.
- A division in an enterprise is composed of several SBUs.
- A team represents the SBUs. The SBU team is made up of members of the critical functional areas and reports directly to top management. These members are, so to speak, the SBU managers in their areas.
- SBU as a planning construct. Particularly in small and medium-sized enterprises with functional organizations, the planning structure diverges from the organizational struc-

ture. The real, primary organization is overlaid by a conceptual one for planning purposes. Forms 1 and 2 are preferable so that strategy and organization can be carried out in harmony and the organizational gap is as small as possible. These strategic business units are then often managed as profit centers with profit responsibility.

Example**Reebok within the Adidas Group**

The Reebok Division designs, manufactures, and markets footwear, apparel, and accessories for sport, exercise, and leisure that combine style with a sporty look and feel. The division is divided into five strategic business units (SBUs), and every product is developed and marketed in harmony with the Reebok brand strategy.

Lifestyle: Classic footwear for children, including “Traxtar” (from “track star”).

Sport: Products for sports such as basketball, cross-training (endurance sport), running, adventure/outdoor sports, soccer, tennis, and US sports such as football or baseball.

Fitness: Hiking shoes and ladies’ footwear for fitness training.

Apparel: Apparel for sports and fitness, global distribution.

Sales: Retail stores and factory outlet stores that sell products of the Reebok, Rockport, Greg Norman brands and certain products from the Ralph Lauren division. ◀

5.6.3 Corporate Strategy

Separate consideration of the enterprise as a whole makes sense only if it either operates in several business areas with specific competitive strategies for each one, or wants to expand into additional business areas. The transition from just one business to several business areas is a feature of a diversified enterprise (“multi-business firm”). Diversification and, above all, the question of the right amount of diversification have become a key topic of strategy research. Therefore, a wide variety of models exists for examining the success of diversification (Palich et al., 2000, 155ff.). Planning literature offers a wealth of approaches to classifying diversification. Most frequently, diversification options are distinguished by two aspects: relativity with the existing business and position within the value-creation process (value chain).

Diversification according to the relativity of business areas

Distinguishing by the relativity of business areas is based on the shared use of resources and issues of risk. There are diversification scenarios based on the same manufacturing technology or similar product technology (such as metal goods or chemical products), or that permit shared use of the distribution system.

The closer the relationship with the core business, the higher the synergy potential normally is, in other words, the chance to glean advantages from the shared use of resources (“economies of scope”). If, on the other hand, the diversification is wholly unrelated, as in

conglomerates or in the case of lateral diversification, virtually no synergies are available. The most frequent motive for such diversification, in addition to pure financial management aspects, is to spread risk.

Doubts are often expressed about the effectiveness of lateral diversification. Findings of empirical studies include the following: Enterprises with a related diversification strategy, which transfer know-how acquired in other business areas at medium risk, are more successful on average than enterprises that have chosen a lateral diversification strategy. Despite these results, lateral diversification is enjoying growing popularity in practice, particularly since it paves the way to new markets for enterprises operating in stagnating or shrinking industries (steel, for example).

Diversification according to value-chain step

The second option for distinguishing types of diversification is based on steps in the value chain. Such diversification can be differentiated by vertical, horizontal, and geographical forms (Miller/Dess 1996, 244ff.). Under vertical diversification, upstream or downstream steps in the value chain are integrated. The integration of the new step is intended to enable an enterprise to build a new, independent market activity. If, say, a pipe manufacturer acquires a steelworks in order to become a player in the steel market, this is vertical diversification.

Horizontal diversification seeks new business areas in comparable steps in the value chain, more or less close to the company's core market — food processors and vacuum cleaners.

A planned diversification can be affected along three paths: acquisition, start-up, and cooperation in resource procurement. Enthusiasm for diversification increased in the 1960s and early 1970s. Between 1960 and 1980, the percentage of Fortune 500 companies that could be described as conglomerates rose from 50 to 80. The prototype was ITT. Diversification went out of fashion in the 1980s and 1990s, however, when companies began to see again the virtues of “sticking to their knitting”. Many shed businesses that they had bought only a few years before in their headlong rush to be a conglomerate. Exxon rapidly withdrew from the electronics business, for example, and BP retreated from coal. Diversification proved a highly successful strategy for some large companies, such as General Electric, Disney, and 3M.

Example

Bombardier

A role model for the late 20th-century conglomerate is Bombardier, a Canadian firm. Founded in 1942 as a manufacturer of snow-going equipment, it grew rapidly in the last quarter of the 20th century to become a diversified manufacturer of products ranging from mass-transit systems to personal watercraft. In 1997, the company's chief executive described its strategy: Bombardier never diversified at breakneck speed. The first move, entering the mass-transit equipment industry, occurred in 1974; the second step, acquiring Canadair, was taken only 12 years later. After each initial foray into a new industry, the company made a series of acquisitions within it to strengthen its posi-

tion. Each new sector they enter shares certain fundamental similarities in terms of key manufacturing processes, procurement, engineering design, and product development (The Economist 2009). However, the question of core competencies immediately arises in a diversified company. How many core competencies can an enterprise have at its disposal? ◀

Core business diversification comes with risks. A McKinsey & Company survey in 2017 shows that 70% of businesses embarking on the journey find that it creates little value or underperforms their expectations. Expanding and diversifying a business beyond its core business proposition comes with considerable opportunities if done right; but also with considerable risks. According to the research, which involved 1,143 executives at companies with revenues above \$500 million, only around a third of businesses can create value of more than 10% of their total business through diversification efforts. In total, around 50% of respondents said that the biggest revenue-generating move has created some financial value, while 28% say it has created significant value. 9% say that it added no value, 8% say it destroyed value and 2% say it destroyed significant value.

On the other hand, a study based on 1,100 companies by Boston Consulting and HHL – Leibzig School of Management (Beckmann et al. 2012) explained that after crises, diversified companies are less volatile, have a measurable financial advantage, and recover rapidly from crises.

5.6.4 Strategic Business Objectives and Portfolio Methods

If an enterprise has decided to diversify, a new strategic problem arises at the corporate level: How should the available resources be distributed across the various business areas, and how should the relationship between the business areas be strategically determined? Popular portfolio models have been developed for such decisions.

The basis of portfolio analysis is formed by the portfolio selection theory developed by Markowitz (1959). This theory is focused on capital investment decisions and states that an optimum mix of capital investments, in other words, an optimum portfolio, should be compiled through targeted investments because of changing environmental conditions. In this case, optimum means that the risk is minimized for a required return or profit expectations are maximized for a certain risk appetite. On the basis of these considerations, an attempt is made to put together an optimum product portfolio for an enterprise. The starting point of the product portfolio is the experience curve and the product life-cycle model. As already described, the life cycle of a product is characterized by a typical curve with the five phases of start-up, growth, maturity, saturation, and decline.

Since revenues, profits and cash flow differ very widely in the individual phases, it is easy to see that the product portfolio has to be composed of products or product groups that are positioned in different phases of the product life cycle. Otherwise, an enterprise runs the risk that it will suddenly find itself carrying nothing but products that are being phased out and no longer generate profits because it failed to ensure in good time that it had new, promising ones. This becomes clear in the automotive industry, for example,

when a certain model is no longer in demand and needs to be replaced by a new one (e.g. VW Beetle by VW Golf). The objective of product portfolio analysis is to direct existing and potential resources into those areas where the market outlook is particularly promising and where the enterprise can exploit its strengths. On the other hand, resources should be withdrawn from those areas where no further advantages result. A product portfolio analysis of this kind poses two problems:

- First, the business areas or business units (SBUs) where the enterprise will invest or divest have to be defined (acquisition).
- Criteria have to be established by which the individual business areas can be assessed (start-up).

Parts of the enterprise that cover a certain product/market area (e.g. selected customer group, geographically definable market) and for which it appears useful to formulate and implement separate strategies independent of other parts of the enterprise are eligible to become business units. Various criteria are used to classify and assess existing or future business areas. The best-known is probably the combination of the following two factors:

- Relative market share (SBU's own market share compared to the market share of the SBU of the strongest competitor) and
- Formula: $\text{SBU's own market share} / \text{Market share of strongest competitor's SBU}$
- Future market growth as a future-oriented parameter that cannot be influenced by the enterprise itself.

Growth/share matrix

These two criteria form the basis of the growth/share matrix developed by the Boston Consulting Group. The lines in the matrix, which are to be understood purely as a means of approximation, create a four-box matrix. In most versions, the values selected for the matrix dimensions are on a linear scale for future market growth and a logarithmic scale for current market share.

- Form strategic business units/strategic business areas
- Condense the factors of influence to two dimensions
- Identify the key competitor in each case; determine average market growth
- Determine the SBU's market share and market growth
- Calculate the SBU's relative market share; determine the SBU's share of sales, share of profit contribution, or cash flow
- The size of the SBU's circles marks the share of sales, profit contribution, or cash flow
- Assess the current portfolio
- Derive standard strategies
- Design a competitor portfolio
- Determine the target portfolio

The Portfolio Generation Process:

- Create strategic business units/strategic business areas
- Condense the factors of influence to two dimensions
- Identify the most important competitor in each area; determine average market growth
- Determine the market share and market growth of the SBUs
- Calculate the relative market share of the SBUs; determine the SBU's share of sales, share of profit contribution, or cash flow
- The size of the SBUs' circles indicates the share of sales, profit contribution or cash flow
- Assess the current portfolio
- Elaborate standard strategies
- Design a competitor's portfolio
- Determine the target portfolio

This growth/share portfolio is strongly quantitative due to the two dimensions used, which in many cases can be objectively measured. Even though competitors' market shares may have to be estimated, it is evident that positioning to within a millimeter is much less important than the possibility of placing the SBU where it would tend to be and deriving standard strategies from this.

The four resulting categories have become an accepted component of strategic planning and can be used to characterize business units. Four portfolio categories result from this matrix. Standard strategies, i.e. possible strategic behaviors, in particular the useful distribution of resources, can be derived from this. These four categories can be described as follows:

Stars

These business units are in fast-growing markets. Although the enterprise has a high market share, it must continue to invest heavily to defend it.

Cash Cows

In these business units, a high market share with low market growth ensures that the enterprise can utilize its cost advantages to the full. The other business areas can be financed from the high income.

Poor Dogs

These are business units that occupy a weak competitive position because of their low market share. They are therefore designated "poor dogs" or "lame ducks". They do not contribute to the cash flow, but they do tie up resources that could possibly be better deployed.

Question Marks

The emerging new products are the hardest to assess. They are given question marks because they are either hopeful (new) products that can be developed into cash cows with the appropriate use of resources, or they represent products that will have to be withdrawn from the market because their market share is too small.

To position them in the growth/share matrix, the following three parameters were determined for each product:

- Current sales volume (corresponds to the size of the circle).
- Current relative market share in the geographic market where the enterprise offers the product. The relative market share has to be entered on a logarithmic scale here. The line between a high and a low relative market share was set at a factor of 1.5.
- Future market growth (real growth rate, estimated as an average for five years).

Although the Boston Consulting Group (BCG) portfolio already provides a good overview of the current competitive positions of the individual business areas, it seems questionable to use this method as the only basis for deriving a corporate competitive strategy. A critical feature is the fact that the BCG approach uses only two yardsticks for its assessment, and there is some uncertainty around the market growth figures for the individual business areas because of the instability of market systems. In addition, the comparison with the largest competitor is not particularly suitable for some business areas. Another disadvantage is that markets that are not currently covered or business areas that are just starting up cannot be realistically assessed with the BCG method.

Nine-box matrix by McKinsey and General Electric

Because of these disadvantages, another portfolio method should also be used: the nine-box matrix by McKinsey and General Electric. Instead of the fixed dimensions of “relative market share” and “market growth” in the BCG matrix, the methodology introduced by McKinsey and General Electric uses a catalog of virtually freely selectable criteria that are aggregated into the assessment variables “market attractiveness” and “relative competitive advantages”. Qualitative aspects can also be included in the assessment of competitive positions in this process. Market attractiveness is judged on the basis of the two previously determined criteria of market size and relative market growth as well as competitive intensity. Competitive intensity is analyzed using Porter’s five forces model. The assessment on the competitor side is based on relative market share and on the success potentials compared to competitors identified in each business area (“relative fulfillment of success factors”). The two criteria used in the BCG matrix are also included in the proposed nine-box matrix. The prospects of an industry where an enterprise’s strategic business units operate can be characterized based on the criteria of market growth and market size, market quality, the supply of energy and raw materials, and the environmental situation.

The analysis contains a weighting and evaluation of the criteria, as shown in [Table 5.5](#).

Thus, the enterprise’s strategic business units are analyzed based on market attractiveness and relative competitive advantages. This makes it clear that this analysis must always be carried out regarding the strongest competitor. Market attractiveness cannot usually be influenced by an enterprise. However, an enterprise can use appropriate market segmentation to shift a product into an expanding segment. The dimensions of market attractiveness should be determined based on the industry situation and adapted to the

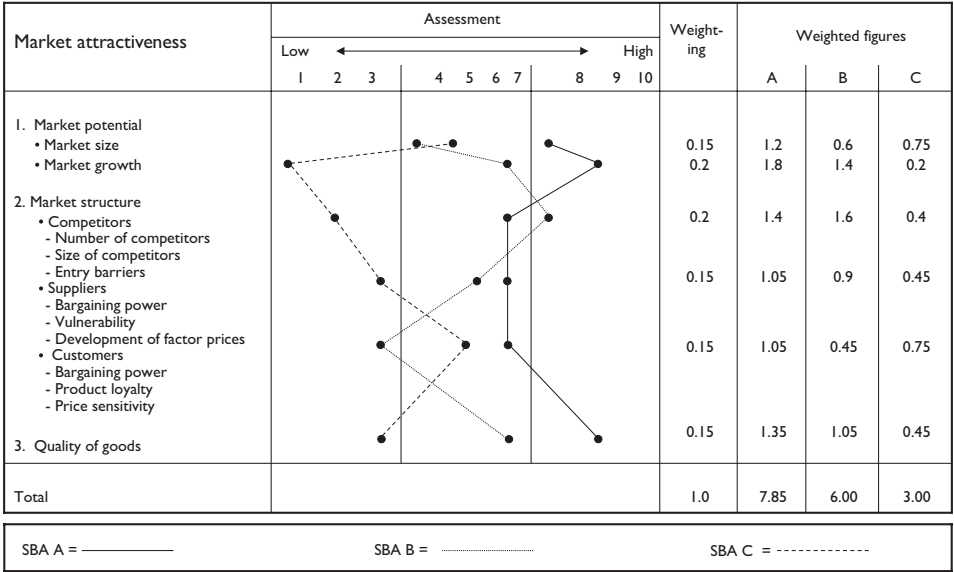


Table 5.5 Determining Market Attractiveness

characteristics of the industry in which the enterprise or strategic business units operate. A list of criteria for the relative competitive advantages could be presented as follows:

- **Relative market position:** Relative market share and trend, Size and financial power of the enterprise, Risk, Marketing potential, Sales organization
- **Relative production potential:** Process efficiency, Environmental pollution, Hardware (location advantage, etc.)
- **Relative R&D potential:** Innovation potential, state of research
- **Relative qualifications of executives and employees:** Professionalism, Innovative atmosphere

The analysis of relative market advantages aims to describe the enterprise’s position in a specific sector or market segment using the criteria of relative market position, relative production potential, relative research and development potential, and relative qualifications of executives and middle management.

The different criteria are generally assessed in discussions with specialists from the divisions or functions and with people from the corporate staff departments or corporate centers. The workgroup will at first very likely fail to reach a consensus in the evaluation stage. In particular, the subsequent process concerning the individual components of the dimension is often a key objective of portfolio analysis. The strategic business units can be positioned in the portfolio matrix on the basis of the assessments. The resulting nine-box matrix is divided up into a total of three areas. For the three boxes at the top right, an investment and growth strategy is recommended in light of the high attractiveness of the market and favorable positioning (relative to competitors). In the area at the bottom left, a skimming (harvesting) strategy makes sense due to the low market attractiveness or unfav-

Success potentials		Assessment										Weight- ing	Weighted figures			
		Low	1	2	3	4	5	6	7	8	9		10	High	A	B
1. Relative market share	Market position												0.075	0.6	0.225	0.375
2. Development of relative market share													0.1	0.7	0.4	0.4
3. Price advantages based on product quality & service													0.075	0.45	0.3	0.45
4. Return on sales	Production potential												0.15	1.2	1.05	0.45
5. Cash flow													0.1	0.8	0.8	0.3
6. Process efficiency & cost efficiency versus competitors													0.075	0.6	0.45	0.225
7. Energy & raw materials supply	R & D potential												0.125	1.125	0.75	0.25
8. Product & process innovations													0.1	0.9	0.6	0.2
9. Ability to protect technical know-how													0.1	1.0	0.5	0.1
10. Professionalism, commitment & culture of management	Top/middle managers												0.05	0.5	0.35	0.05
11. Quality of management systems													0.05	0.45	0.4	0.05
Summe													1.0	8.325	5.825	2.85
SBA A = _____ SBA B = _____ SBA C = _____																

Table 5.6 Determining Relative Competitive Advantages

avorable positioning of a business area. The company should consider discontinuing the business if the free cash flow is negative. In the middle field of “selective strategies”, a decision has to be made between an investment and a skimming strategy following detailed analysis (e.g., if a corresponding business area strategy is in place).

A disadvantage of the nine-box matrix is the subjective nature of determining and weighting the evaluating dimensions and the quality assessment of the business areas (Pearce/Robinson, 2005, 266f.). Because the positioning of the businesses influences the key areas for investment, business area managers could use this freedom to influence the actual position of their areas of responsibility in their favor. The design of the assessment list and the evaluation of the business areas themselves should, therefore, be undertaken by independent (as far as possible) people.

5.6.5 Strategic Options for Business Areas

At the business area level, the question of how to compete in a specific business area must be answered. This general problem can be illustrated using three questions that have to be answered by any competitive strategy:

- Where to compete (core market versus niche)
- How to compete (game-rules; old game versus new game)
- With which direction of thrust to compete (cost orientation versus differentiation)

Core market or niche?

The first question focuses on the various options for market coverage. Where should the enterprise enter the competitive arena? Is it better to select a strategy for the whole market or to concentrate resources on one segment? The basic decision is, therefore, whether to select the core market or a niche (market segment) as the competitive arena. It always makes sense for an enterprise to confine itself to a market segment if it can achieve its objective based on its special strengths better there than by operating in the total market. Concentration on a niche can sometimes generate more income than serving the total market. The niche can be defined by a customer group (e.g., Italian restaurants as purchasers of specialty vegetables), a product line (artichokes instead of an entire range of vegetables), or a geographic segment (offering vegetables only in one region).

Deciding on a niche always means sacrificing potential market share. Niche strategies are particularly promising when the core market players cannot easily serve the niche for structural reasons (such as manufacturing technology, distribution system, and service organization). For example, large airlines find it difficult to include small regional air traffic in their existing offerings. Not only do they lack suitable aircraft, but the entire system is also geared to mass air transport (maintenance, administration, etc.). However, a niche strategy — like any other strategy — is always threatened with the risk of erosion.

Old game or new game?

The second question relates to the structure of the business areas and, as already indicated, the fundamental decision here is whether to keep that structure or aim for a change in the competitive game rules. The conservative strategy considers the business area structure as a given and strives to position the enterprise to the best effect within the existing competitive dynamics. Strengths and weaknesses are taken into account. In contrast, change strategies strive to overcome the prevailing market rules. This can be done by changing the structure in an enterprise's own favor, e.g., causing market concentration by acquiring competitors. Another path is cooperation, for example, the formation of a joint venture (e.g., ABB). Structural change can, however, also be brought about in a completely different way: The market game rules can be reversed and redefined. Market innovation strategies of this nature are generally based on reweighting a business area's critical success factors or on adding new success factors. For example, we may at this point remember IKEA, which rewrote the rules of the furniture market with its innovative combination.

Reduce costs or differentiate products/services?

The third question points to two other basic options: will the enterprise mainly compete on low costs or product/service differentiation?

The cost-focused strategy aims at achieving a competitive advantage through a relative cost lead. Strategic activities are bundled around the objective of attaining costs that are lower than competitors. Such cost advantages can be quantified approximately on the basis of the experience curve phenomenon. This phenomenon has often been misunderstood. It is assumed that it necessarily leads to giantism (corporate growth as a prerequisite for success). In fact, the opposite is true. Since the experience curve only ever applies to "homogeneous volumes", it is the key rationale for the principle of concentration of forces,

which is the most important rule of strategic planning. However, it also explains why so many diversification programs fail (Porter, 1992).

The cost-focused strategy does not mean that quality or other aspects of differentiation, such as image or service, should be entirely neglected. As a rule, a standard good of average quality and design is offered within the cost-focused strategy. Cost leadership does not necessarily mean being a cut-rate player; in most cases, the cost leader will strive to make its product attractive so that it can hold its price close to the industry average and, therefore, skim the cost advantage.

The second basic competitive strategy — differentiation — is based on gaining an edge by giving the market output offered a unique character. To a certain extent, differentiated goods are unique goods. The aim is to reduce the price elasticity of demand by this means. Even if competitors greatly undercut the enterprise on price, the core demand — and therefore the return — should be retained. Buyers accept the relatively high price because of the uniqueness of the product (monopolistic competition). Typical sources of differentiation are: customer services, location, quality, design, or all-in packages. The cost leadership strategy and differentiation strategy are always mutually exclusive. Differentiation is normally associated with a deterioration of the cost structure; the cost leadership strategy aims to optimize the cost structure and allows for average quality or differentiation. Enterprises that are averse to creating a clear focus run the risk of falling between two stools. They can neither achieve high sales volume nor appeal to exclusive customer groups; in general, their profitability is therefore lower.

In the 1970s, IKEA succeeded in securing an excellent position in the furniture market. It elected to follow an unusual strategy: to penetrate the core market as a cost leader by applying new rules. The striking feature is the combination of cost leadership with new game rules. By restructuring the value chain — in particular, by redistributing the value-creating activities between the firm and its customers — it succeeded in gaining a significant cost advantage over its competitors. In addition, it managed to bind customers to the company emotionally, beyond the price rationale, with a clever image campaign. This latter has helped it to defend the competitive edge it acquired against followers. The strategic options listed are situation-dependent guidelines for action. The option to be selected in an individual case depends crucially on the results of the analysis of the environment and the enterprise. Growing markets harbor different opportunities and threats than shrinking ones. And companies with chronically unfavorable cost structures are generally ill-advised to set themselves cost leadership as a strategic objective.

The business model takes into account both the supply side and the demand. When building a profile, it does not make much sense to consider customer value solely from the sales point of view. In addition to considering promising needs or value patterns, increasing customer value should also always include implementation at the lowest possible cost, thereby optimizing the use of resources. Although the business model is built on customer value, it also takes the supply side into account along the value chain. The objective here is to optimize the total value chain from the manufacturer and the retailer to the customer. Following this principle, retail management must first of all recognize value potentials — customer values — and then develop them efficiently. At the same time, changes in customer value can and should result in changes in the profile of a retail company. On the

other hand, however, retailers can also influence customer values through their business policy. The following discussion, particularly the practical examples, provides more depth on model-specific characteristics.

In retailing, management activities often concentrate too much on improving operational efficiency. When implemented without differentiation, management concepts such as Total Quality Management, Efficient Customer Response, or Best Practice encourage short-term responses to competitive activities and ultimately bring about strategic poverty and increasing similarity of the market players. However, any company wishing to generate profits in European retailing has to take its strategic homework more seriously. Building competitive advantages demands a clearly defined strategic direction of thrust that inspires the enthusiasm of both customers and employees. From this, an adequate value strategy for the target group(s) can be derived which includes the retailer's existing resources and capabilities.

The three business models provide indications as to how a retail firm should proceed in order to increase customer value. The business models for international retail management (Rudolph, 2000) concretize Porter's strategy recommendation (Porter, 1992) and are related to the value strategies of Treacy and Wiersema (1995). These models are related to practice and, in particular, to retailing. They supplement Porter by showing what levels the classic differentiation requirement can adopt and what concrete impact the cost leadership strategy results in. The starting point of the thinking here is always value to the customer. For example, discounters (cost leaders) attract customer groups seeking value for money. Store layout and services play a subordinate role for this type of customer. At content retailers (product leaders), the customer finds unique offerings of merchandise and product assortments. These literally draw the customer into the store and generate a decisive competitive advantage. Customers buying from channel retailers (which partner directly with customers) seek good service and convenient shopping. They perceive the product assortment as very similar and attach little importance to particularly low-cost offerings. Against this background, three strategy models appear appropriate for increasing customer value. These promise customers cost leadership, product leadership, and customer partnership.

Because several value models are impossible to realize under increasingly fierce competition, thinking and acting on the basis of these business models is gaining priority with the internationalization of retailing. Because of limited resources, the choice should, therefore, be a business model that corresponds to a company's existing strengths, although it should be noted that the three business models represent ideal cases.

5.7 Strategy Implementation

5.7.1 Success Factors

Strategic management research was and is strongly focused on the creation of strategies. Consequently, one question that has arisen in the context of strategy research is the extent to which strategy creation is really an explicit act of design on the part of corporate management. Mintzberg (1994, 1995, 1998), for example, considers strategies — including successful ones — as being rarely the result of rational, deliberate planning, while on the

other hand rationally planned strategies are frequently not implemented. He explains that a strategy that was originally planned can turn out a failure, while an unplanned one that emerges unexpectedly can prove successful. Strategies that have been realized in the way they were planned are described as “deliberate strategies”. In addition to this type, however, there are “unrealized strategies”, which are executed as intended but prove impossible to realize. The third type consists of “emergent strategies” which are unplanned and lead to a harmonized strategic model without concrete, explicitly formulated intent.

Mintzberg finds that deliberate strategies are overvalued because it is not sufficient to formulate strategic intentions precisely; they also have to be shared collectively by all the members of the enterprise. However, this condition is hard to realize in practice. In practice, hybrids between deliberate strategies and emergent strategies are more likely to be found, which depend, for example, on the extent of central control, employee involvement, concretization of the strategic intentions, and the predictability of the environment.

These findings illustrate the importance of strategy implementation within the framework of the strategic process. If strategies cannot be implemented efficiently in an enterprise, strategic management is ineffective and remains merely an intellectual exercise. Strategy implementation must concern itself with strategic plans realized by management and employees’ concrete, strategy-driven action. First, Strategy implementation is characterized by operational tasks such as the concretization of strategy in operational plans, budgeting, determining resources, and harmonizing strategy, structure, culture, and systems. Second, we can distinguish behavior-related tasks aimed at having the strategy accepted: for example, the improvement of management competence or the launch of a continuous change management process. Viewed in this way, a strategic implementation process accentuates success factors in the organizational structure and systems, in the corporate culture, and in the competencies of management and employees (Kaplan/Norton, 2006, 32f.).

5.7.2 Strategy and Structure

Strategies do not automatically impact on corporate performance. One of the most important prerequisites for enabling a strategy to take effect is the creation of a strategy-friendly organizational culture. The formal organizational structures and the information processes must be adapted to the needs of the strategy.

In simplified terms, the relationship between strategy and structure can be described as follows: with a single-product strategy, the classical, functional, centralist organizational structure will be successful. With broad diversification, an effective approach is to adapt the organization by decentralization and divisionalization.

Overall, it can be said that the internal complexity of an enterprise normally rises proportionately with diversification and that, if the strategy is to be successful, the resulting diversity has to be managed organizationally. The assumption that setting up decentral structures is an adequate response to diversification only sheds light on one part of the organizational problems, in other words, the specialization of the structure. At least of equal importance, however, is the question of how the various partially autonomous divisions can be coordinated. Coordination is the most major organizational challenge today in complex, diversified large companies. In this type of enterprise, it is, therefore, very

important to put special coordination mechanisms in place. Not only central coordination tools (human resources policy, controlling etc.) should be borne in mind here, but also integrative structural forms like the matrix organization or project organization.

In addition, the question of responsibility for strategic decisions arises on the organizational level. Overall responsibility for strategic management lies in the hands of the top management. However, this does not mean that only the chief executive and a few selected employees determine and implement strategies.

In practice, strategies are successful only in cases where all employees are integrated into the strategic process as far as possible. The following groups in particular are referred to here:

- Heads of the various corporate units (strategic business units, profit centers, divisions) are responsible for formulating and implementing their units' strategy.
- Divisional and functional managers (research and development, marketing, human resources, etc.) are chiefly responsible for formulating and implementing their divisional and functional strategies.
- Branch and departmental managers (e.g., sales office managers, works managers), and product managers are responsible for formulating and implementing the sub-strategies relating to their areas of responsibility.

The remaining employees are responsible for performing the strategic tasks in the context of their duties.

5.7.3 Strategy and Culture

The aspect of corporate culture always comes more into center stage when strategic organizational measures are implemented. Corporate culture means the total body of values and norms that determine what behavior is appropriate or otherwise in an enterprise. As an invisible control parameter, it is of great importance in realizing strategy, because its attitude to a strategic redesign can decide the success or failure of that strategy.

However well thought through the launch of a new strategy may be in planning terms, it can still fail if it clashes with the values and norms of the existing corporate culture, particularly if the conflict is not recognized. Corporate cultures develop a specific autonomy that cannot easily be changed. Recognizing the corporate culture has therefore become a permanent feature of strategic planning managers' duties. Corporate cultures can make strategies a brilliant success, but they can also bring them to a grinding halt. From this insight follows the principle that strategic success is only possible when strategy and culture are congruent. However, at present we have little knowledge of which strategies require what cultures.

There are two basic possibilities for strategic planners in handling corporate culture:

- Adapt the strategy: Select only those strategies that harmonize with the existing corporate culture.
- Adapt the culture: An attempt is made to adapt the corporate culture to the new strategic orientation.

The second option can only be implemented with great difficulty and cannot be affected in the short term. Corporate cultures are organically grown, complex systems that are not easily accessible to simple redesign. Culture cannot simply be realized, unlike, say, the conversion of payroll accounting to a computerized system.

On the other hand, an enterprise cannot capitulate to its own culture and block an essential strategic redesign merely because it is not in line with the prevailing norms. In such extreme cases, the culture would then threaten the company's survival. The objective of strategically aware corporate management, therefore, must be to ensure that the enterprise has a fairly flexible value structure from the start; this is done by taking care from the outside that the culture does not become too hidebound. Such a position implies sacrificing the steering efficiency of comfortably settled cultures. From the strategic point of view, however, strongly marked and deeply embedded corporate cultures have few advantages. It is extremely risky to sacrifice strategic flexibility for operational steering efficiency.

Example

Läderach — My Strategy — made fresh

The Swiss high-quality chocolate producer (www.laederach.com) created a booklet, "My strategy — made fresh 2022-2027," for all employees. The booklet, in the form of a notebook, starts with the question: How do we make Läderach the leading retailer for premium chocolate within the next five years — worldwide? The booklet contains the company's global network regarding chocolateries (Canada, USA, UK, Germany, Switzerland, Liechtenstein, Austria, China), franchisees (Jordan, Saudi-Arabia, Oman, UAE, Qatar, Bahrain, Kuwait, India, Singapore, South Korea) and the origin of cocoa (Costa Rica, Trinidad, Ecuador, Brazil, Ghana, Madagascar).

The booklet is a collection of different statements:

"We share one common purpose: Sharing joy by making chocolate fresh."

"We are guided by three beliefs: Make it fresh/Take ownership/Show respect."

"We are committed to "made in Switzerland."

"Because our product is king."

... we do not compromise on quality and freshness

... we orient our offering towards consumers

... we defend the core & expand for more

To boost our brand ...

... we drive purchase

... we position the brand — internally and externally

... we build customer relationships

... we create awareness

... we think and act omnichannel

... we diversify selectively and globally

To grow omnichannel we beat the industry

To build digital ...

... we elevate customer experience through data & analytics

... we digitize operations along the value chain

... we invest in our skillset, toolset and mindset

To organize for growth we build scalable & data-driven processes

The booklet is composed of several pages to foster the implementation of the mission statements in day-to-day actions. Today I will ..., Today I assume responsibility for ..., This week I will, An awesome initiative would be to ..., What I appreciate in my colleagues ..., How I show respect to my environment ..., My contribution to our community ..., or How I care for our planet. ◀

5.7.4 Planning Process

In the context of operational concretization, the strategy has to be transformed into short-term operational action, budget, and deadline plans. The strategy has to be concretized in operational planning so that day-to-day activities are conducted strategically. However, the transformation into short-term actions is problematic because strategic planning is founded on quite vague information and is therefore difficult to translate into concrete actions. The conversion of strategy into operational objectives, indicators, and standards is therefore a core task. For this reason, strategies are first transformed into medium-term projects that are concretized, budgeted, and controlled in medium-term project planning.

Medium-term project planning performs a bridge function between strategy and operational actions (Kirsch/Reglin 1991, 654). Medium-term project and program planning aims to use strategies to develop medium-term actions with an approximate planning horizon of between three and five years. These functional program plans determine the needs of plan fulfillment, such as product development, finance, or human resources requirements, and determine implementation. It is of crucial importance for functional areas that the content and timing are coordinated to form an integrated corporate plan.

Medium-term project planning is carried out in the following steps:

- Determine medium-term objectives
- Develop actions
- Identify interdependencies
- Determine the time requirement
- Decide on responsibilities and accountabilities
- Derive resource requirements and resource allocation

One tool here is the concept of the balanced scorecard, which supports the medium-term goal-setting process and translates a business unit's mission and strategy into specific objectives and ratios (Kaplan/Norton 1997).

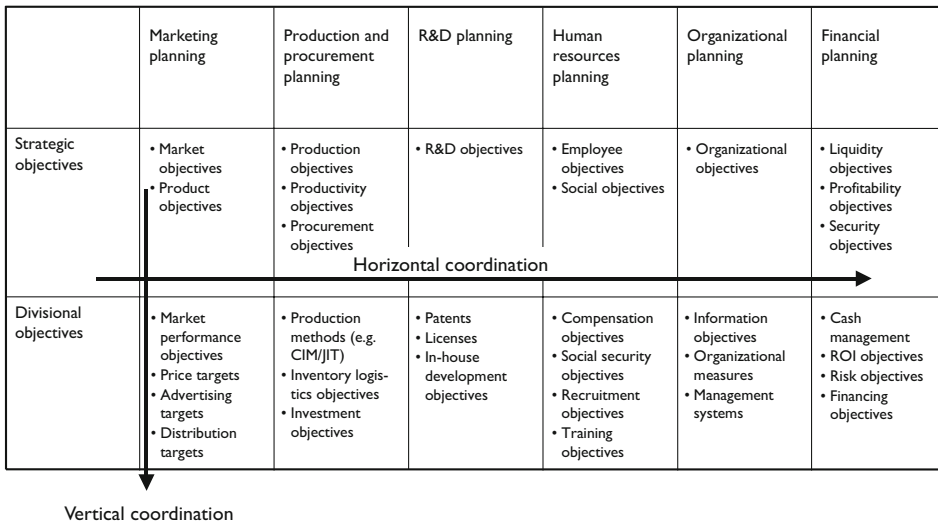


Figure 5.9 Coordination of Divisional Plans

When developing the objectives for the functional areas, it is advisable to start with the area that is likely to be exposed to the greatest changes under a new or revised strategy. This is often the marketing function. The consequences for every function (or SBA) should be set out in detail based on the mission statement and competitive strategy. Horizontal and vertical coordination of the objectives and processes is very important. The plans for the individual areas need to harmonize the strategic elements.

On the basis of the medium-term actions, operational or short-term function plans are generated that represent corporate management's actual operational control tool. This comprises

- operational plans for each area in the form of functional or business area objectives,
- budget as a detailed framework of volumes and figures,
- a short-term annual plans, a financial plan and iterative adjustments.

The medium-term function plans are the basis on which the short-term annual plans are generated and quantified in the form of budgets. The budget defines the production volume and the consumption of resources in a specific management area. In practice, operational planning and budgeting are often not separated.

The results of operational planning are the budgeted balance sheet and the budgeted income statement, for which the function plans are consolidated and coordinated.

In addition to the short-term liquidity plans and prospective cash-flow statements, the financial plan is comprised of the budgeted balance sheet and budgeted income statement. This plan has to map out an enterprise's core financial objectives.

5.7.5 Strategic Control

Together with the traditional management tasks of planning, organization and human resources management, strategic control is an independent management function with the potential to control the enterprise. Strategic control reviews the planning process. Running parallel to planning, it identifies differences between the budgeted parameters and comparative ones. Strategic control has four characteristic features:

Control content

Strategic control distinguishes between assumption control, progress control, and planning accuracy, among other elements.

Control parameters

Qualitative as well as quantifiable parameters are important.

Control direction

Both an enterprise's internal and external success factors are controlled by a "strategic radar".

Control timing

The control process is continuous and accompanies the planning process.

Strategic control is thus significantly different from traditional control, which is based solely on quantifiable parameters, for example, and where the control is carried out only once the plan has been implemented (Bea/Haas 2001, 218). The modules of strategic control are strategic assumption control, strategic implementation control, strategic monitoring, and control of potentials.

In developing strategy, assumptions are constantly made in order to grasp the complexity of the environment and make it possible to derive strategies in the first place. Assumptions may lie, for example, in the area of technical developments, expected customer behavior or competitive reactions. It is therefore essential to check these assumptions on an ongoing basis and re-view their validity. For example, a publishing house may assume in planning its titles that the reading habits of the readers it addresses will change. It assumes that there will be a shift from fiction to non-fiction. Discussions with booksellers and target readers at a book fair can be used to check the degree to which this assumption is valid.

Strategic implementation control (progress control) naturally starts later in the planning process. The aim then is to record the differences from the intermediate strategic goals set ("milestones") during implementation, enabling an assessment of the level of threat to selected strategic objectives. Formulating the milestones is the key task of progress control. This task is made more difficult by a strategic direction that may make it impossible to set intermediate objectives until relatively late and could prevent them from being defined in quantitative terms. Strategic monitoring, which does not operate selectively like assumption and implementation control, performs a special function. Strategic monitoring is a global, non-selective (undirected) control that constantly questions the direction of planning. Internal conditions and the environment are continually observed for previously neglected aspects or unforeseen events. Strategic monitoring acts as a strategic radar that monitors the environment.

5.8 Strategy Implementation through Management by Objectives

5.8.1 Basic Principles

Planning is understood as the starting point of the management process here; however, it is not enough simply to think about the resources for achieving the strategic objectives. Instead, implementation has to become the central focus. Because strategy implementation has to be considered just as much as strategy development, a number of management systems have been developed for this purpose. The best known of these is undoubtedly MbO (Management by Objectives). The basic idea of MbO is almost as old as management itself. Managers have always tried to set and achieve objectives. Striving for objectives is a fundamental human behavior, and MbO is an important tool in goal-oriented corporate management.

As a result of social developments and, later, economic developments in particular, constantly expanding organizations are now pursuing a goal orientation. The increasing complexity, anonymity, and specialization of modern business organizations confront management with problems that never existed before to the present extent. The need grew for a coordination process that directed efforts within an enterprise towards certain objectives as effectively as possible and, in addition, met the requirements of transparency, cooperation and motivation. Management studies developed countless systems and methods. They were all flawed in being one-dimensional. In this regard, MbO is clearly different from the other formulas and methods.

Peter F. Drucker (*The practice of management*, 1993) is considered the father of the principle of MbO in business organizations. The basic principle of MbO is first and foremost a philosophy. This philosophy could best be described as thinking in the form of results. This principle, however obvious and simple it may be, is not easy to implement in reality. It takes practice to learn it thoroughly. MbO as a system is subordinate to its

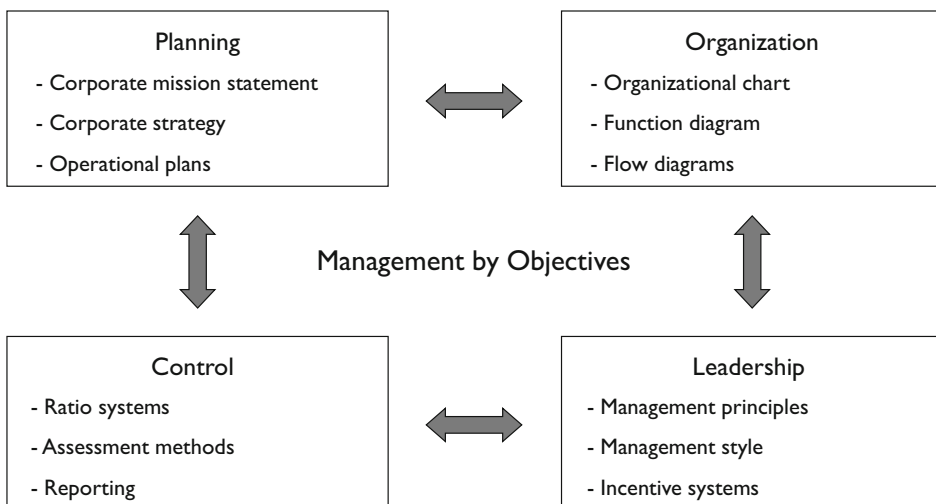


Figure 5.10 MbO and Management Functions

implementation. At this point, the relationship with the balanced scorecard should be mentioned; this method actually triggered a renaissance of MbO in the 1990s. The two systems are complementary because the balanced scorecard contributes a strategic component with a consistent system of goals, which in turn represents the optimum platform for MbO.

Advantages of Management by Objectives

Like all management systems, MbO has advantages and disadvantages. Various practical studies have shown that the success and value of MbO depend largely on the way the system is implemented and then handled.

However, the advantages of an MbO system can be considerable:

- The clear formulation of objectives enables a focus on the key tasks, thus achieving better results by concentrating the enterprise's energies. Fully articulated objectives help managers to set priorities consciously.
- Clear objectives create transparency and, therefore, establish the most important basis for timely and efficient control. Deviations from the intended course can be identified more easily on all levels, and corrective measures can be initiated in good time. This point is important in light of the growing inertia in large organizations today.
- The MbO system forms a suitable foundation for developing integrated management systems.
- The MbO system is a dynamic planning concept spanning several hierarchical levels. With MbO, the corporate objectives are transformed into fixed targets for the individual executives. This means that all executives are involved in planning, and consequently employees' efforts are increasingly aligned with the corporate objectives.
- The MbO system is also a tool for managing employees. The fact that the manager and his staff set targets together helps in employee development, communication between the boss and his subordinates, and, the objective management and control of employees and, finally, it also serves as a basis for performance-based assessment.

5.8.2 Phases of Management by Objectives

Although many versions of MbO exist, most programs consist of a four-step cycle. This cycle is divided into the phases of setting objectives and targets, developing action plans, performing periodic progress control, and assessing performance.

Setting objectives and targets

A MbO system starts typically at the top of the enterprise. Corporate management formulates the enterprise's fundamental objectives. These objectives become the platform for deriving targets on all management levels from the top down and organizing them as a hierarchy of means and ends (Figure 5.11).

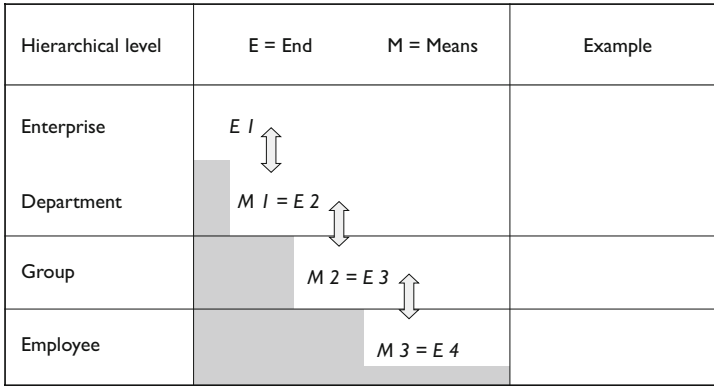


Figure 5.11 Means-end Chain

Setting targets is the most difficult phase in MbO. It demands that managers step away from day-to-day business and answer one question: what do we want to achieve within what period of time? The target-setting process pervades the entire enterprise. Corporate management formulates the objectives that affect the enterprise as a whole and the priorities to be set by middle management. Executives on the middle hierarchical level formulate the objectives for the department, which, in turn, are translated into targets for a group or an individual employee. The executives serve as “linking pins”, holding the various groups together on different levels. The objectives are communicated top-down through these linking pins, and at the base of the hierarchy, they serve as the framework for the formulation of sub-objectives. The targets formulated on the lower level are passed upwards. If differences arise in this process, they have to be adjusted by the executives in “linking pin” positions.

It is desirable to agree on the objectives. In many cases, the participative version of MbO increases the probability that employees will identify with the objectives (Figure 5.12). If targets are simply prescribed, many employees will reject MbO and will not be motivated to achieve what has been agreed. Agreement on the targets can be of decisive importance for identification and for joint responsibility for the results.

However, it would be a gross generalization to define targets on a participative basis in every case. The particular situation will determine whether prescribing, agreeing, or autonomously setting targets is appropriate: for example, it depends on the employee’s stage of development, his hierarchical level, the type of task, or the time factor.

Objectives can be described quantitatively or qualitatively. Quantitative objectives are normally numerically defined, for instance, “utilization increased to 80% by ...”, or “three new sales reps hired by ...”. Qualitative objectives contain such wording as “customer services improved”. They have to be precise enough to enable a realistic assessment.

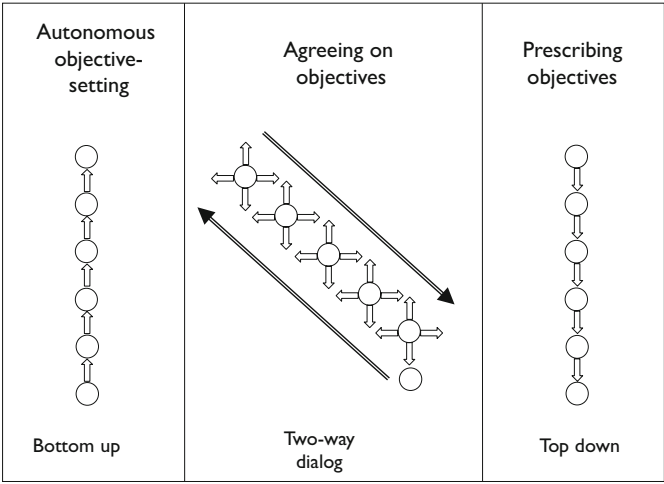


Figure 5.12 Objective-setting Options

Developing action plans

Action plans indicate the path to the desired objective. They are generated for a department or an employee. A corporate objective may, for example, envisage the setup of a new division. The relevant department has to design a plan that determines precisely how that objective is to be realized.

Similarly, to the development of plans on the departmental level, every employee has to work out actions for achieving his personal goals. A targeted sales growth of 6% may, for example, induce a marketing manager to conduct special campaigns for the affluent customer segment, increase the advertising budget by 10 percent, “sell” the A products better to the sales representatives in internal training, and hire an additional representative. Once the action plans have been generated, the planning phase is completed. The plans then have to be operationalized as actions.

Periodic progress control

Progress toward the objective must be reviewed periodically. This control should be carried out in an interview between the manager and the employee. The frequency will vary depending on the target, but is often set at three-monthly intervals.

These periodic status reviews are built into MbO as a mechanism for ensuring continuous feedback. They enable managers and employees to determine differences from the target, revise the target if need be, or initiate new actions.

Occasionally, unexpected events such as the loss of a key person force the enterprise to renounce or reformulate existing objectives. A similar situation arises with the planned actions. The manager and the employee should not stick rigidly to the originally agreed actions. If, for example, a marketing manager finds that special campaigns for the affluent customer segment have barely affected sales, he can free up the funds and transfer them to the advertising budget. After all, the intention is not to fulfill specific plans, but to achieve desired objectives.

Assessing individual performance

At the end of an MbO cycle, normally after a year, the employee's contribution to the enterprise's success or failure is measured. While periodic progress control aims to identify and solve specific problems, the annual performance assessment is carried out in order to determine and reward the employee's total contribution to the fulfillment of the objectives. Their success or failure, measured against the objectives or targets, may determine the performance-based component in the employee appraisal system. This classification defines the performance-based element in the salary system or forms the basis of other tangible and intangible rewards. Traditional assessment methods are tailored to an inventory of the employee's strengths and weaknesses that is described by personality traits and uses terms such as capabilities, loyalty, and teamwork. With MbO, the focus shifts from personality traits to the performance achieved. To put it another way, the output rather than the input is highlighted. MbO is therefore described as a results-based assessment system.

Departmental control

Depending on the industry and their requirements, all of an enterprise's departments will have institutionalized various checks on business progress over the course of the year. These controls are carried out in the form of quarterly account balancing, budget control meetings, or strategy workshops. Here, too, it is advisable not just to put together figures and, at worst, ask the responsible employees to justify them orally. Rather, time-related and action-oriented checks must be made in the interests of goal-oriented management. How the individual results are made transparent and presented will not be discussed at this point. However, one tool for higher-level control and correction — again, it's a simple one — will be explained here. It is advisable not to ask for general explanations of differences from the budget or plan, but instead to analyze them by operational areas, costs, products etc., give brief reasons and have necessary actions presented. A simple standard format can be used for this. The content and timing of such higher-level checks on business progress must be fixed at the beginning of the year. They help to achieve more transparency and ensure flexible and timely control. The actions (or projects) derived from the control processes are incorporated into the "automatic mechanism" of the employees' action planning. In addition, dynamic adjustment of the objectives in the MbO system is ensured.

5.8.3 Prerequisites for Success

The prerequisite for MbO in its participative form is that managers and employees set the objectives together. Hierarchical differences hardly seem to influence objective-setting. However, experience in day-to-day business shows a different picture. When the manager and employee have different opinions, the manager's position often asserts itself, and a system declared as management by agreeing objectives instead takes the form of management by imposing objectives. The participative variety requires a relationship between the manager and the employee that is in a mature phase and is based on trust. Otherwise, it is difficult to arrive at a consensus.

Management by Objectives not useful on all levels

It is more than questionable whether MbO should be used on all hierarchical levels. Low-grade managers generally have little influence on the importance attributed to the individual objectives by the enterprise. The lower an employee is in the hierarchy, the less probable it is that a process of agreement on targets will take place. This does not mean there is no scope for decision-making and action on the lower levels, however; rather, it is confined to the phase of the action plans and execution, for instance scheduling in production or the assignment of tasks.

Over-emphasis on quantifiable objectives

MbO encourages quantifiable or measurable objectives to be set, but there is then a risk that enterprises will concentrate on objectives that can be expressed numerically, such as sales figures, production rates, or payroll costs. Objectives that are difficult or impossible to quantify are marginalized, such as customer service, employee satisfaction or the enterprise's image. This is the case, for example, in a bank where the focus is on increasing the volume of loans granted. Particularly when MbO is linked to salary decisions, employees may try to manipulate the figures in order to look good.

Dependencies between employees and groups are inadequately considered

In today's working world, different jobs are closely linked. An employee's performance depends heavily on other people's efforts. It is therefore problematic to formulate objectives for a single person (or a single group). It is also difficult to assess the relative importance of individual bundles of objectives in order to formulate the contribution to the enterprise's superordinate goals.

A tendency towards mechanistic symptoms

Finally, MbO tends towards static and mechanistic symptoms. Determining objectives for individuals and groups across all hierarchical levels is a time-consuming process. Because it is a wide-ranging task, it is difficult to modify objectives "against the tide" once they are set. The participative version of MbO is not very suitable for enterprises operating in a dynamic environment. In addition, the large volume of paperwork needed in many enterprises to maintain MbO can paralyze what was originally a dynamic system.

5.8.4 Conditions for Application

Although the introduction of MbO can be ring with it a number of problems, if properly used it is a very effective tool. It is important to realize the positive points and mitigate the negative aspects.

The MbO system must have the full backing of corporate management

MbO generally starts at the top of the enterprise and strives to organize the wide range of objectives into a hierarchy of means and ends. It is crucial for corporate management to actively promote the process of commitment to the objectives, participate in it, and encourage employees to act and to lead in a goal-oriented manner.

MbO should be within the area of responsibility of every executive

MbO is the management tool of every manager. It cannot be delegated to the human resources department or to some department or other. Executives have to participate actively in the objective-setting process and agree on or set the objectives “face to face” with the employees.

Important goals should be properly formulated

MbO shows employees what is expected of them. To fulfill this purpose, the core objectives have to be specified, a time frame set, and the objectives formulated in a way that allows them to be verified.

Progress control has to be performed periodically

Progress control forces managers and employees to communicate periodically about work-related issues. If MbO is to be successful, this process must involve all management levels and pervade the whole enterprise. If MbO is directly linked with the salary system, employees will base their actions almost exclusively on the MbO objectives. There is a risk of the objectives becoming an end in themselves and employees striving to maximize the level of goal attainment. However, an employee's total contribution to corporate performance should be rewarded, not just the degree to which written objectives have been achieved.

MbO is frequently introduced by consultancy firms that use standardized programs, but in cases these bear very little relation to the enterprise's specific situation. Every MbO system has to be tailored to the enterprise's needs. Those affected should be involved in this tailoring process. Excessive red tape is one characteristic of unsuccessful MbO programs. The amount of paper used must be limited to essentials. It is sufficient for the objectives to be set out in writing. Other information is of secondary importance for the positive effects of MbO to unfold. Experience has shown that confusion, dissatisfaction, and failure often arise when a comprehensive management system is introduced. MbO programs often fail due to attempts to introduce planning, control, performance assessment, the salary system, and the operating technique on the basis of MbO all in one go.

MbO should be introduced step by step to use the learning effects from the previous cycle. Each cycle stimulates the learning process afresh. A proven approach is to introduce a new module every year and to start at the top of the enterprise. A medium-sized enterprise needs five or more years to bring a fully developed MbO system to fruition. MbO is basically a simple concept. The problem lies in the application phase. People should always be aware that it is primarily a communication medium for clarifying the corporate objectives and the role of employees. If the positive sides of MbO are successfully developed and the negative ones minimized, MbO is a simple but highly effective management tool.

5.8.5 Formulation of Objectives

The formulation of the main objectives is the most important task in the entire MbO system. Only if the right objectives are identified in this phase can the enterprise ensure that all a manager's commitment and work in the subsequent period will be geared toward the

optimum results. “Optimum” in this context means that the limited time available to the manager will be used for those tasks that will bring him and the enterprise the greatest benefit (Bleicher 1999, 640).

The famous 80-20 rule (the Pareto principle) may be mentioned in this regard. In many cases, applying leverage at the right place (20 percent of your time) can solve 80 percent of a set of problems. Here are some examples:

- A marketing manager in a company manufacturing technical consumer goods has always had great difficulty in reaching his sales targets. Neither intensive advertising nor price reductions paid off. In the end, two important wholesalers were paying no significant attention to the product. Consequently, the marketing manager focused on redesigning the distribution system and achieved excellent results within the shortest possible time.
- The manager of a trust company constantly strove to meet his profit targets. The reason he failed was because many clients were dissatisfied because their orders took too long to process so they used other companies for their new orders. The business flourished when it proved possible to reduce processing times significantly by systemizing the process.
- A tormented director was constantly fending off friction from a variety of sources. But when he succeeded in finding an efficient deputy, he was able to relieve himself of a lot of detailed work and devote himself to his main tasks.

What all these examples have in common is that by intervening at the right point, the maximum improvement in the overall outcome could be achieved in the minimum time. In the first example, the marketing manager could have spent months more working on better advertising, but total earnings would hardly have increased. Success became apparent only when the marketing manager concentrated on the key problem. The same goes for the other examples.

A major problem in formulating objectives is that it is difficult to ascertain the main performance areas. Specific key objectives, results, or projects for every department, for every manager, and for every employee entrusted with creative tasks, have to be identified from the conventional annual plans.

These key objectives are derived from:

- Corporate policy objectives, strategic targets, and operational planning;
- General tasks that have to be performed in accordance with the job descriptions;
- The management functions, in other words planning, organization, employee leadership, and control, which have to be performed by every manager. At best, these are roughly outlined in the job descriptions.

A new feature of the MbO system is the fact that the objectives are operationalized. They have to be put in a verifiable form. This operationalization causes problems initially. All projects and all activities carried out by departments or managers have to be recorded in the form of results. What has to result from the manager's efforts, from the various projects? The example on the next page illustrates these relationships.

It is very important to note the fact that the activities and projects of the large departments derived from the annual targets

- Have to be coordinated,
- Never contain everything that is done in these departments in the course of the year,
- Never guarantee that the enterprise's annual targets will be met, because in the first place all these actions to achieve management goals are based on an analysis and assessment of the position that have been carried out by human beings (and might therefore be wrong).

Second, circumstances (the economy, market development, competitive activities) may have a positive or negative impact on these (right or wrong) actions.

Every executive now has to derive his personal activities or targets from the departmental objectives or projects: what do I have to do to ensure that the departmental projects and departmental objectives are achieved?

How are the targets worked out?

There are many options open to the manager for working out targets. First, they can be developed directly between the manager and his employees, and second, this may be preceded by a group discussion in which the manager meets with all employees who report to him directly.

In both cases, the objectives of corporate policy, corporate strategy, and operational planning always form the basis for defining the key targets. The following four steps are categorized when using the group discussion approach:

Group discussion

The manager presents his personal key targets (supplemented by policy, strategy and planning) to his employees in a meeting. In the group discussion, they clarify what contributions the individual employees can make towards achieving the overall objective.

Individual development of the key targets

The group discussion is simply used to make an initial approximate definition of the employees' individual contributions. The actual development of personal key targets is done individually. The result of the individual definition of the key targets consists of a weighted list of four to seven goals.

Objective-setting interview between manager and employee

The employee's proposal is then discussed in a personal interview between the manager and the employee. The result of this discussion is the employee's revised goal catalog. In this revision, it is essential to emphasize the careful coordination of his goals with the other employees' targets. Finally, the goals have to be precisely formulated and the verification criteria decided.

Structuring of key targets

The next and most important step is to dynamize the static annual objectives. They have to be systematically converted into the reality of day-to-day work. Many MbO systems have failed at this point because the managers have not been provided with the knowledge (implementation know-how) or the required simple tools.

Once more, the basic concept here is very simple. Every executive has to answer the following question: what do I have to do this month in order to make my contribution to my annual objectives? The answer to this question, in turn, is a large number of activities. The challenge is to record these activities in the form of results. They have to be given a time frame and described in a verifiable form. The targeted monthly results will never cover an executive's entire field of activity. In addition, all the targeted results are often not reached in the desired time. This requires an 'automatic' memory — the rolling to-do list.

A manager's total planning process for Management by Objectives can be outlined as follows (Figure 5.13). Onto the rolling to-do list go all activities and targeted monthly results that, for one reason or another, could not be completed or achieved as intended. The list is, therefore, the initial base for formulating the targeted end results of the following month (monthly targets). Each month, every executive makes a list of the results he wishes to achieve in that month. At the end of the month, outstanding tasks or objectives are transferred to the rolling or accompanying to-do list. The list is consulted and, as far as possible, deleted from the monthly planning for the following month. This procedure is repeated at the end of each month for the following months.

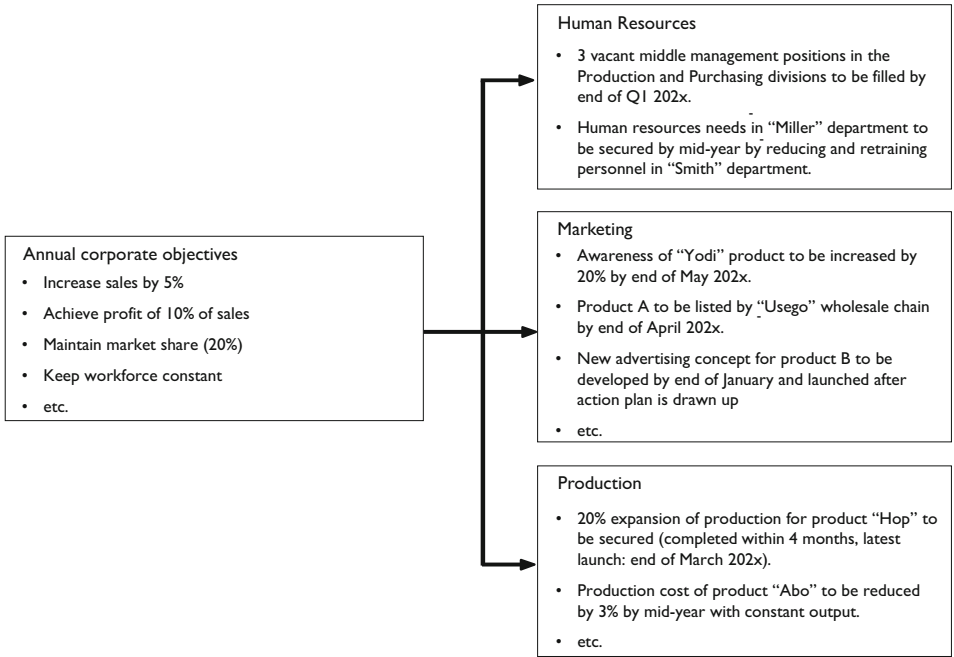


Figure 5.13 Formulation of Main Objectives

Using this simple tool ensures that

- People do not lose track of the annual objectives and that they are transformed into reality to optimum effect;
- Gaps in the annual objectives are filled on an ongoing basis or obsolete objectives are eliminated in good time;
- Every senior executive performs a monthly final check on his own work (self-control);
- Every senior executive has a simple, transparent tool available for monitoring his subordinate managers;
- At the end of the year a complete record of essential tasks and results for the past year is available for planning and for assessing employees' performance.

5.8.6 Criteria for Effective Objectives

Every objective has to describe the result to be attained without listing activities that are intended to lead to the objective. Activities and results can be distinguished as follows:

Activity: Describes something that is done in order to achieve an objective

Result: Describes a specific situation or behavior that is to be attained. An objective always describes a result.

Although this distinction is very simple, formulations of objectives frequently include activities, which only make the description of the objective confusing. This is illustrated by the following example:

- Anti-competitive infringements reduced by 15 percent by a meeting with competitors and the development of joint actions to identify "black sheep" by 30 January 202..

This formulation does not indicate, for example, whether 30 January 202.. refers to the 15 percent reduction, the development of joint actions, or the planned meeting. The way the objective is formulated makes all three possibilities conceivable. The confusion arises because the activities are described along with the result. The following formulation of an objective separates the result and the activities:

- Anti-competitive infringements reduced by 15 percent by 30 January 202..

The omitted activities will form a component of the action plan, which then shows how the 15 percent reduction in anti-competitive infringements will be achieved.

Therefore, the action plan will include the following activities: meeting competitors, developing joint actions, and identifying black sheep.

If an objective contains both a result and an activity, a connection is often made between them. This occurs verbally with words like "in order to, thereby, so that, to achieve, to lead to, to enable us to". Such formulations show that the author is describing procedures, in other words, activities, and also the results to be achieved using those procedures.

Every objective must include a deadline for its fulfillment and answer the questions: How much? How well? The results must be verifiable and observable. A specific measuring and control process is needed to determine whether the result has been achieved.

Three different methods can normally be used here:

- The absolute number
- The ratio
- The description of conditions or achievements

The best method has to be determined for each objective. Easy and inexpensive measuring methods are not always available or possible.

Say a manager wants to do something in an area where the existing performance has never been measured. It is impossible to know whether the manager has reduced late deliveries by 15 percent if he does not know how many deliveries were previously late. In addition, it may involve too much effort to determine the previous late deliveries. The most direct measuring method is based on the absolute number. Sales or income can be stated in a currency. Production volumes can be stated in quantity units, for example in tons or liters. A ratio can be stated where an absolute figure is not useful. In quality assurance, for example, the scrap rate can be given. Likewise, ratios can be used for unpaid invoices, on-time project completion, employee turnover rate, or complaints.

Some objectives cannot be measured numerically. This often includes objectives that relate to the quality of customer services or of a product, for instance. Objectives dealing with human beings' performance and behavior also require a description of observable types of performance and behavior.

Every objective has to be related to the enterprise's strategy and to one of its performance areas; in other words, it must be derived from the corporate strategy or a functional strategy. This ensures, first, that the objective supports the enterprise's intentions and second, that it comes under the performance area of the manager and not that of a member of staff or of the boss.

The challenge with any objective arises from the required performance level. The challenge sometimes lies in maintaining the current performance level with fewer resources or in the face of greater obstacles; for example, achieving the current production level with less manpower. Since every objective describes an intended future result (performance), a commitment always has to be entered into for the person concerned and the available resources. Challenging but achievable objectives increase the probability that an objective is taken on board.

Objectives and responsibilities (job description, function diagram) together have to represent the majority of the efforts undertaken during the next six to twelve months. The important issue here is for the objectives and responsibilities to capture the essence of the function. Together, they should describe the majority of the work. Whether the objectives and accountabilities are comprehensive or not is subject to the judgment of the employee and his manager. They should agree that approximately 80 percent of the work is described by the objectives and responsibilities.

5.8.7 Description of Soft Objectives

Objectives relating to job satisfaction, recruitment, communication and similar ‘soft’ topics are valuable because such areas can have a significant influence on the effectiveness, productivity, and attractiveness of an enterprise. However, these objectives require a very great deal of attention to be paid to the measuring method that is an essential part of a description. Subjective assessment therefore always has a part to play. Job satisfaction cannot be measured in truck-loads per day.

Examples of Soft Objectives

- Employee effectiveness increased by the end of 202.
- Working atmosphere improved by the summer of 202.
- 95 percent of all customer calls were answered professionally by 1 April 202.

In each of these cases, the topic (effectiveness, working atmosphere, professionalism) requires a description so that the result can be verified. The trick is to include in the description the observable achievements/behaviors and/or the observable conditions that define the desired result. ◀

Example

Customer Calls

The description of “professional” includes the following observable behaviors, achievements, and conditions:

- Prepares everything (documents, materials, equipment) before the first call.
- Follows the flow chart for call handling.
- Does not have more than 10 percent of the information provided by the caller repeated.
- Gives reasons for his questions.
- Never says “you have to”.
- Says “I can understand that you are” and inserts the customer’s specified or expressed state.
- States reasons and benefits if further queries and wait times are needed for the customer.
- Does not use formulations with negative connotations and highlight examples
- Responds, but does not initiate off-topic or personal conversations.
- Asks questions to obtain the real reason if only “general complaints” are put forward.
- Let the customer hang up first. ◀

Example

Working Atmosphere

- Employee fluctuation rate
- Absenteeism
- Number of applications for internal job advertisements

- Number of applications submitted at employees' suggestion
- Results of an in-house survey
- Number of suggestions for improvements ◀

5.9 Balanced Scorecard Approach

The Balanced Scorecard approach was published in 1992 by Kaplan and Norton and has undergone numerous enhancements since its introduction (Kaplan and Norton, 1996). It evolved primarily from the criticism of traditional and mainly finance-oriented performance measurement systems such as the DuPont System for the return on investment (ROI). Industrial companies such as Du Pont developed a model that aimed “to allow an efficient allocation of financial and physical capital” (Chandler, 1990, cited by Kaplan and Norton, 1996).

However, the causal connections within a corporate cause-effect structure have changed significantly since then. Therefore, not only the tangible but also the intangible assets of a company are key factors of long-term competitive success. Kaplan and Norton name the trend of deregulation, globalization in general, and the introduction of information technology, just to mention a few reasons.

Thus, the use of new key figures, which allow for measuring a company's intangible assets in the broadest sense (e.g., employee know-how, profitable customer relations), is necessary. These intangible resources primarily drive the mid- and long-term buildup of assets in a classical way.

One of the key requirements of the Balanced Scorecard Approach is, therefore, the concentration of strategic considerations on key figures, so-called “leading indicators”. These leading indicators influence the entire management system and provide drivers of future performance. In order to assess the positioning of a single target or indicator within this structure, the concept envisages connecting these targets using cause-effect relationships. As long as a specific key figure or driver affects — directly or indirectly — an adequate number of other indicators, it is called a “leading indicator”. On the other hand, key figures which show very few cause-effect relationships and often are the end result of other indicators are called “lagging indicators”.

- financial perspective/receivables / ROCE / operating expenses
- customer perspective/customer satisfaction
- internal business process perspective/wastage, defective goods
- learning and innovation perspective/employee satisfaction

Managers need a balanced presentation of both leading and lagging indicators. These indicators should be divided into the underlying short- and long-term targets with the desired results or outcomes, as well as the performance drivers that lead to those results. In addition, the mix of those metrics must be “linked”, mutually reinforcing and coherent.

To achieve the described balance between long- and short-term goals, respectively, leading and lagging indicators, the concept of the Balanced Scorecard requires choosing them evenly from four different perspectives (Kaplan and Norton, 1996, 23-27). These perspectives are derived from the most common factors that executives see as critical for business, i.e., cost structure, product quality and innovation, customer satisfaction, management development, change management, and flexibility.

Financial Perspective: Indicators in this category usually come from classical performance measurement systems. They emphasize the dominance of profitability, which is the result of strategic decisions made in the past. Strategic investments are evaluated based on the financial return on capital within a specific payback period. The perspective provides feedback on a company's overall performance and whether its strategy meets its targets regarding liquidity, profitability, and stability.

Customer Perspective: Such indicators are used to rate entrepreneurial success from the sales point of view. They include not only general indicators such as customer satisfaction, customer retention, customer profitability, or market and account share but also specific measures such as the performance of individual market segments. The latter is used mostly for deriving targets for more detailed planning and providing customized performance drivers for maintaining or improving general customer key figures (e.g., punctuality, quality, etc.).

Internal Business Process Perspective: Key figures from this perspective measure the effectiveness of internal processes. Not surprisingly, they significantly influence the variables of the customer and/or financial perspective. Besides improving existing processes, it is above all about identifying new processes that directly connect to the customers' demands. A strict focus on the core processes that will have the most significant impact on customer satisfaction is both rational and necessary. To be able to achieve medium-term success in the customer and financial perspective, key figures that assess innovation-specific processes are required decidedly. An internal business process perspective involves short-term acting indicators from the production cycle and medium-term acting indicators from the innovation cycle with an effect on lagging indicators, such as earnings figures.

Learning and Innovation Perspective: Key figures in this category usually have a sustainable and a long-term impact on lagging indicators; they give an indication of the future development of a company. These key figures include measures from the HR- or IT-sector predominantly. The management system of the Balanced Scorecard compensates for the recognized restriction of classical, short-term oriented financial performance measurement systems by introducing at least three additional perspectives. These perspectives include key figures, each of them having short-, medium- or longer-term cause effect relationships with one or several lagging indicators. In such a complex system, multiplier effects do occur; consequently, it seems necessary to define such a causal model as comprehensive and as accurate as possible. The method of the Balanced Scorecard focuses on the development of a sustainable management framework, which allows corporate decision-makers to implement actions and targets aligned with a common corporate strategy.

Clarification and communication of vision and strategy.

The strategy serves as a reference point for the entire management process.

The consensus about the vision is the foundation for the strategic learning process

Communication and linking of strategy

Coordination of targets throughout the organization from top to bottom

Further education and open communication about the strategy and HR development

Performance bonuses are linked to the strategy

Planning and targets

Challenging targets are established and accepted

Strategic initiatives are clearly outlined

Investments are determined by the strategy

Strategic feedback and learning process

A feedback system is used to test the assumptions, on which the strategy is based on

Problem-solving through teamwork

Strategy development is a continuous process

Accordingly, Kaplan and Norton recommend the implementation of a Balanced Scorecard in the form of a management system. This does not pursue a time-phased schedule, but tries to create an environment that enables operational decisions to be made in accordance with the corporate strategy. With the Balanced Scorecard's claim to integrate both financial and non-financial key figures, it is particularly likely that daily operations correspond better with the long-term strategy of the management. Each employee should, therefore, be able to anticipate the impacts of his behavior on the strategic lagging indicators (which actually are, indeed, mostly financial indicators) even before making a decision.

At the end, this management system is not only capable of translating strategy into action, but also linking the management's vision of the company to specific targets for each business unit or each department and even for each employee. Since that framework — as already indicated above — cannot be definitively designed in a single run, this process is described as a continuous, iterative process with four steps.

The four steps of the Balanced Scorecard management system are presented in detail in the following sections.

Step 1 — Translating the Vision

Before building a Balanced Scorecard, the executives of an organization have to develop a clear vision as well as a comprehensive strategy. It is the top management who leads this process right from the beginning: the starting point for the definition of the overall strategy is usually the determination of the financial goals of the company. In the end, any Balanced Scorecard should be derived from the company's distinctive strategy. A careful selection of leading indicators (e.g., revenue, market growth, profitability, or cash flow) has to be made. It is very likely that indicators relate to each other in a contradictory way (e.g., cost reduction vs. market growth); objectives should be harmonized already in such an early stage.

The next step is to determine which key drivers should be selected based on the considerations above. From the customer perspective, for example, there should be a common opinion about which market segments the company should focus on.

After having identified the market-specific focus of the corporate strategy, the internal business process perspective has to be determined: firstly, the core processes, which are the most critical concerning outstanding performance for customers and shareholders, have to be identified (Kaplan and Norton, 1997, 11). On one hand, the spotlight is placed on the optimization of traditional process indicators (such as quality, cost, throughput, or processing time). On the other hand, one of the unique features of the Balanced Scorecard approach is the promotion of the innovation process, which should be supported by suitable targets within the internal business process perspective. In the learning and innovation process perspective most of the key figures are leading indicators, especially for the internal business process perspective or the customer perspective, as well as for the financial strategic targets. Elements of this perspective, according to Kaplan and Norton (1993, 137), are to be selected in a way that allows long-term and sustainable improvements in the other three perspectives. The measures should be focused on product- and service-innovation, and the increase of efficiency in any internal process.

Step 2 — Communicating and Linking

As soon as the vision in general and the business strategy in particular has been formulated, the organization first communicates its financial and customer goals. The communication of the strategic objectives of the entire organization primarily serves to link the targets of each employee or department to the overall strategy of the company. Then secondly, the management plans the essential measures in order to drive the achievement of the projected results. Having this information in mind, all organizational participants (not only the executives but all other layers of management and even the frontline employees) can focus on the common objectives of the strategy of the company. Due to the reasonably precise measurability of individual contributions to corporate strategy objectives, it is promising to increase employees' motivation to achieve the company's goals by introducing adequate incentive systems. Kaplan and Norton (1996, 209) stipulate for example, as a fundamental part of their method, to link the Balanced Scorecard framework with the company's compensation system.

Subsequently, in this phase, the question has to be answered whether — and if so, to what extent — the content of the Balanced Scorecard should be communicated beyond the boardroom to external stakeholders. Kaplan and Norton (1997) suggest in this regard determining the confidence of the management in the Balanced Scorecard as an indicator:

Step 3 — Business Planning

After having communicated the strategic goals both internally and externally and having established an appropriate incentive system, detailed planning of objectives and targets should now follow. In this phase, Kaplan and Norton (1997) recommend the strategic goals to be specified for the next three to five years. As a consequence, sufficiently challenging but realistic targets should be set. These targets must not be individual fragments of a “general optimization”, but should set the focus on the improvement of just a few lagging indicators. By this time, the necessity of reliable cause-effect relationships between strategic objectives and

their indicators appears indispensable: if a lagging indicator is fully and correctly described by a system of cause-effect relationships and their performance drivers, a sensitivity analysis can be carried out. It should signify, within the causal model, to what extent the adjustments of leading indicators affect directly or indirectly the lagging indicators.

In this phase, the planned investments are reviewed for alignment with the strategic objectives. Remarkably, as Baldwin and Clark indicate in a study (1994), a major part of investment decisions of U.S. companies are not motivated by strategic issues but are based on classical financial key figures such as payback ratios, discounted cash-flow figures or profitability indicators (ROI, ROCE, etc.). According to Kaplan and Norton (1997, 226f.), this category of key figures only permits the achievement of short- or medium-term success because it does not represent a sufficient foundation for the long-term development of the potential of the company.

In this context, Kaplan and Norton criticize that the budgeting process usually relies almost always exclusively on parameters from the accounting without any involvement of strategic requirements. Consequently, only a small part of the strategy — determined in the Balanced Scorecard framework — is covered. For this reason, it is compulsory that the annual budget is rooted in the strategic objectives and, at the same time, during the year, can be used as a controlling tool for the purpose of the Balanced Scorecard. For this reason, it is necessary to split the targets into milestones in order to incorporate them into the budgeting process. It seems essential to be able to simulate scenarios from the planning process for shorter planning horizons.

Step 4 — Feedback and Learning

The first three steps of the Balanced Scorecard management system are taking care of the formulation and implementation of a homogeneous corporate strategy. However, in order to equip this process model with sufficient flexibility, the method provides feedback concerning the effectiveness of the strategy. This feedback may be used in the form of a learning process (“strategic feedback and learning process” — see step 5). Commonly known approaches in this regard emphasize the need for continuous evolutionary improvement of the corporate strategy (Mintzberg 1987 and 1990 or Simons 1995).

This methodology can be transposed through the application of “double-loop-learning” in the process of the formation of a corporate strategy. This type of learning was first distinguished from the so-called “single-loop-learning” by Agyris and Schön (1996). Agyris and Schön assume that operational decisions are made based on a ‘self-concept’ of the company. Such a concept contains all the hypotheses of the decision-makers about the connections within the company and its environment.

With single-loop-learning the deviations of the planned and the achieved results are used to adjust the processes as well as all measures in order to get back on track. This can be described as a reactive behavior. This kind of way of thinking is predominant in traditional performance measurement systems.

In contrast, the Balanced Scorecard approach is generally very open-minded when it comes to identifying entirely new processes to meet the financial ambition of the company or the business unit. Double-loop-learning organizations are receptive to adapt or redesign not only processes and actions but also existing concepts and strategies if necessary.

By comparing the status of key figures from the past and from today, it can be concluded if the measures taken have achieved the desired effects or not. Kaplan and Norton (1997, 243) developed a three-stage concept as a precondition for this strategic learning process in terms of the Balanced Scorecard.

- The first precondition is a common, homogeneous picture of the strategic vision. To accomplish this, the strategy is communicated — as already discussed previously — within the company through a framework of strategic goals, their indicators, and the connecting cause-effect relationships. As a result, it will be possible for every employee to assess the consequences of his actions in relation to corporate objectives.
- As part of the ‘strategic feedback,’ the extent to which the original hypotheses within the Balanced Scorecard must be maintained or modified has to be investigated. A regular analysis of the key figures would contribute to evaluating the underlying cause-effect hypotheses. On the one hand, the sensitivity of lagging indicators in dependence on their leading indicators can be interpreted; on the other hand, basic assumptions about the reaction time of such indicators on strategic measures can be made.

For the purpose of evaluating these criteria, the Balanced Scorecard provides several tools, which are explained as follows:

- The correlation analysis measures the mathematical coherency between two strategic indicators using statistical methods. Kaplan and Norton (1997) conclude that if, over a certain period of time, no hypothetical correlations are shown, the company has sufficient evidence that the theory — which underlines the strategy — is not accurate).
- Business simulations and scenario analysis with current indicator data, assist the executives to find an improved strategy for the past. These allow conclusions about future changes in the strategic plans or the strategy itself.

Team-oriented solution methods utilize the mitigating and error-correcting effect of mixed teams with the idea of discovering fundamental gaps within the Balanced Scorecard framework. Following the example of the approach of Katzenbach and Smith (1993), Kaplan and Norton propose to use cross-functional groups in order to question the principle assumptions about strategic relationships set in the Balanced Scorecard. Members of the management are challenged at regularly held strategy review meetings to present the progress of the strategy implementation and to discuss corrective action. Organizational learning at the management level in the form of an iterative, integrated, strategic learning process as the “most innovative aspect” of the Balanced Scorecard approach. The feedback on the hypotheses, which is an integral part of any Balanced Scorecard and the decisions built on that, lead to a qualitatively improved strategy and contribute to bottom-line progress.

Chapter Appendix

Key Takeaways

- Understand the characteristics of strategic decisions and what is meant by strategy and strategic management, distinguishing them from operational management
- Understand how strategic priorities vary by corporate, business, and operational levels.
- Diagnose strategic capability utilizing value chain analysis, activity mapping, benchmarking, and SWOT analysis.
- Consider how managers can develop strategic capabilities of organizations
- Identify strategic business units in organizations.
- Explain the basis of achieving competitive advantage and core competence.
- Identify emergent processes of strategy development.
- Explain some of the issues managers face in strategy development, including intended and realized strategy and the development of the learning organization in uncertain and complex conditions.
- Analyze how organizational context might affect the design of strategic change programs.
- Identify the pitfalls and problems of managing change programs.

End of chapter questions

1. In connection with the strategic analysis, initial strategic conclusions are derived from the SWOT analysis. Please explain the following analysis steps.
2. What does strategy mean, and what is the origin of the term?
3. What are the features of strategic thinking, and what distinguishes strategic from non-strategic thinking and action?
4. What is a strategic success potential, and what importance does it have in the context of strategic management?
5. What position does strategic management occupy in the overall context of corporate management?
6. What phases does the strategic development process consist of, and what activities is it composed of?
7. From what areas can relevant information be drawn, and how is it processed further?
8. What is the importance of feedback loops in the strategic planning process?
9. Stakeholder management
10. Generate a stakeholder analysis for the airline SWISS, classifying the individual stakeholders according to their importance. Four groups are distinguished: playmakers, jokers, laws, and marginal figures.
11. Negative effects of the diversification strategy

12. The negative effects of a diversification strategy are easy to perceive at Vivendi Universal — negative in the sense that the total value of the enterprise is less than the sum of its parts (“diversification discount”) and value has been destroyed at Vivendi Universal.
13. Search on the Internet for information that proves the value destruction and indicates the basic problems with Vivendi Universal’s diversification strategy.
14. Consult the homepages of Intel (www.intel.com), Novartis (www.novartis.com), and Puma (www.puma.com). Using information about the companies (annual reports etc.), try to find out how the nature of the strategic problem in these companies differs. Why is this the case?
15. Why are objectives important to an enterprise? Explain how corporate objectives affect the development of an enterprise.
16. What does corporate policy have to do with Management by Objectives?
17. Explain in detail what is meant by the following statement: “The objectives of the enterprise are structured in the form of a hierarchy.” Include the concept of the hierarchy of ends and means in your answer.
18. Strategic business areas and strategic business units. List three to five attributes of each of your key competitors that they could build, or have already built, into strategic success potentials.
 - a) What actions would you have to take to imitate your competitors? Estimate the resources needed for the purpose.
 - b) In your opinion, who should be entrusted with the task of strategic corporate management?
 - c) Which member of your enterprise might you, as the head of a company, possibly be involved with and what tasks would you entrust to this person?
 - d) How would your current activities in corporate management change if you selected a strategic approach for the future?
 - e) Who in your enterprise would be directly affected by it, and what would the impact be for the people in question?
19. Take any enterprise of your choice and search for information using a variety of different channels. List those 15 attributes of your chosen enterprise (products, services, functions, or other characteristics) that, in your opinion, can secure the survival of the enterprise for the next five fiscal years.

Examine whether these attributes are suitable for building strategic success potentials and/or core competencies.

How might these attributes have to be changed to be suitable for the above purpose(s)?

Case study 1: Ferrero and future challenges

Ferrero was founded by Pietro Ferrero in 1946 in Alba, Northern Italy, an area renowned for its hazelnut plantations. Its first product, Pasta Gianduja, allowed the company to expand throughout Europe. Michele Ferrero succeeded his father as chief executive and relaunched the Gianduja recipe as Nutella (Ferrero’s first brand), which was sold for the first time in 1964. With a keen eye on their roots and potential, he wasted no time taking it global.

Under Michele's leadership, Ferrero focused on diversifying the product line and emphasizing quality above all else. The Kinder line (second brand) of chocolates was introduced in Germany in 1968- "Kinder" means children in German — followed by Kinder Surprise in 1974. This success set off a chain of other successful products, such as Kinder Bueno, Kinder Joy, Happy Hippos, Kinder Delice, and Country Crisp.

Tic Tac (third brand), the breath mint brand, was launched in 1969 and quickly became one of the bestselling brands in the United States — even making an appearance in Hollywood feature films, like *Friends* and *The Simpsons*. Ferrero Rocher (fourth brand) made its debut in 1982. Today, it is a world leader in its category.

In 1997, Pietro and Giovanni Ferrero took over as CEOs following their father's retirement. After Pietro's premature death, Giovanni continued on his own from 2011 onward. Despite having officially stepped down, Michele was still heavily involved in the business until his death. It had grown with internally generated resources to become the world's largest consumer of hazelnuts (25% global production). This led to Oltan Group being acquired in 2014 — the world's premier supplier. Giovanni Ferrero has since continued his aggressive growth strategy with other major brands:

2015 — British chocolate retailer, Thorntons

2016 — Belgian biscuit brands Delacre and DeliChoc from United Biscuits

2017 — US chocolate maker, Fannie May and Ferrara Candy

2018 — Nestlé's American confectionery business

2019 — Kellogg's Famous Amos, Murray's, Keebler, Mother's, Little Brownie Bakers, and others

2020 — Campbell Soup Company's stake in the Danish bakery, Kelsen Group; UK company, Fox's Biscuits; healthy snack company, Eat Natural

2021 — British firm Burton's Biscuit Company

2022 — Dublin-based vitamin and protein bar producer, Fulfil Nutrition; Wells Enterprises, an American ice cream manufacturer

2023 — Naples-based frozen bakery company, Fresystem SPA

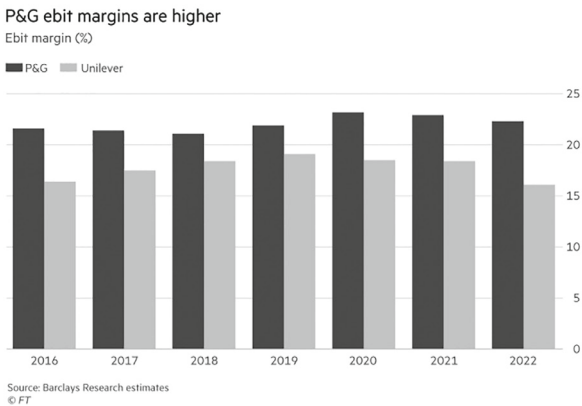
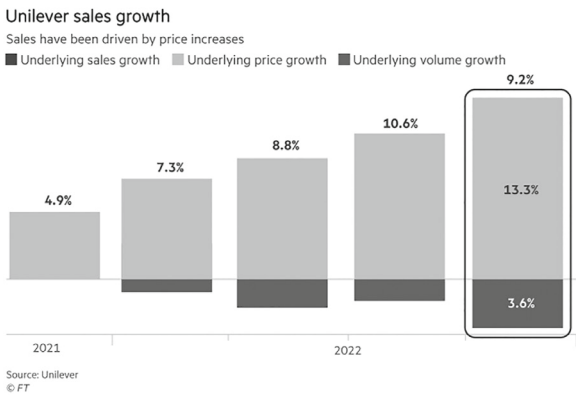
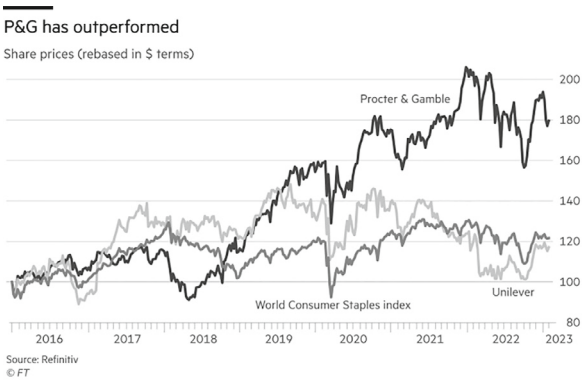
Giovanni Ferrero has shifted away from what made the company successful and is now aiming for rapid growth. He has set himself the ambitious goal of achieving 7.33% growth each year through strategic mergers and acquisitions. If he succeeds, Ferrero will dominate the global confectionery market. However, should he fail, he risks being known as an heir who squandered away his family's legacy.

Exercises

1. What are Ferrero's core competencies?
2. Ferrero has been negatively reported by the media regarding their hazelnut value chain or the health impact of its products. Please collect information on the internet and reflect in which manner the company reacted to these issues.

Case study 2: Unilever, the maker of Ben & Jerry’s ice cream, has embarked on a turnaround plan

Compared to Procter & Gamble, Unilever’s share price since 2016 hasn’t been much to shout about. Unilever announced an investment of €1bn in marketing and R&D. Unilever is forecasting price increases and margin declines continuing into the first half of this year.



View from the Media and Case Study 3: Nike faces uphill climb in sneaker wars

Overreliance on retro brands, insufficient innovation and neglecting the athletics market have hampered the shoemaker

Financial Times, June 15, 2024, by Pan Kwan Yuk

Nike has lost its stride. Once the pace setter in the \$150bn a year global trainers market, the US sportswear giant is in the midst of its worst sales slowdown in decades. The company is expected to eke out only a 1 per cent increase in annual sales when it reports its fiscal 2024 results this month. Excluding the pandemic and the 2009 global financial crisis, that would be the company's worst showing since 1999. Nike needs to return to its roots as a maker of innovative footwear. The stock, down nearly 50 per cent from their 2021 peak, shows how far Nike has veered off track. A valuation of 25 times forward earnings is also well below its five-year average of 33 times. Competition is one problem. Cautious consumers in its two key markets — North America and China — are another. But Nike has also made plenty of strategic mistakes of its own: chief among them is an overreliance on retro sneaker sales, insufficient investment and innovation in new products and neglecting the athletics market. Under John Donahoe, chief executive since 2020, Nike leaned into the retro trend. It has substantially increased the number of new Air Jordans and Air Force 1 releases in recent years. The strategy worked to the extent that the Jordan brand pulled in \$6.6bn in whole-sale revenue in fiscal 2023, a 29 per cent jump from the year before. The flipside is that Nike runs the risk of saturating the market. Jordan-driven sales growth has blinded Nike to growing competition in the performance products category that caters to casual and serious athletes.

In running, Nike has lost ground to Hoka. The high-performance running shoes, with their signature giant sole, generated more than \$1.8bn in sales last year for parent company Deckers Brands, a 28 per cent increase from the previous year.

At On, an upstart running brand from Switzerland, sales grew by nearly 50 per cent to SFr1.8bn (\$2bn) last year. Shares in Deckers and On are up 103 per cent and 44 per cent over the past year, compared to Nike's 17 per cent decline. Peddling in-demand brands to affluent customers means Deckers and On command pricing power. Gross margins at the two increased to 55.6 per cent and 59.6 per cent, respectively, last year. Nike's margins hover around 45 per cent. This battered stock offers plenty of potential. With annual revenues of \$51bn, Nike remains one of the world's most recognisable consumer brands. Profit is growing again thanks to cost cutting. But confronting new upstart rivals will require a faster pace of change.

<https://www.ft.com/content/8f2bd259-01cb-4545-b060-f6f631083a81>

Case study 4: Southwest Airlines — The history of the first low-cost carrier

Following the terrorist attacks of September 11, 2001, the volume of air traffic fell by around 20 percent. The American air industry was in crisis; many airlines had to take out loans, lay off staff, cancel flights, and cancel or postpone orders for aircraft due to liquidity problems. Not Southwest Airlines, however, which neither canceled flights nor dismissed employees. Southwest Airlines had the lowest costs of all American airlines, good liquidity, and a good credit rating. As a result, it was able to bridge short-term liquidity problems. Southwest Airlines has posted positive figures every year since 1973 and has never had to let employees go due to business conditions. It was the only airline to earn a profit in the last quarter of 2001. Southwest was actually in a position to offer 40 more flights per day and to increase its market share by around 2 percent.

The story of Southwest Airlines began in 1966 when Texan entrepreneur Rollin King conceived the idea of creating a low-fare airline to serve business travelers shuttling between San Antonio, Dallas, and Houston. His business concept was straightforward: offer a schedule that appealed to busy professionals, ensure on-time arrivals, and provide a pleasant flying experience — all at a price competitive with driving. However, before this vision could be realized, King and his attorney, Herb Kelleher, had to overcome significant legal barriers, delaying the airline's launch until 1971.

The hiring of Lamar Muse as Southwest's first CEO in 1971 was a turning point. Muse, an experienced airline executive, secured the necessary capital for aircraft, equipment, and liquidity. His leadership, marked by cost-saving negotiations with Boeing and strategic recruitment of experienced staff, was instrumental in Southwest's early success. Muse instilled a maverick mindset in the company culture, emphasizing the philosophy: "We do whatever we have to do to get the job done."

Southwest Airlines faced significant financial challenges in its early years, stretching its resources thin. Despite these difficulties, the airline's employees maintained a "can-do" attitude. Southwest decided to invest in a bold advertising campaign, which included distinctive uniforms for flight attendants and serving alcohol for free on flights. The airline also established Dallas Love Field as its home airport and launched a clever marketing campaign centered around the theme of "love," with slogans like "Now There's Somebody Else Up There Who Loves You." This imaginative branding helped Southwest differentiate itself from other airlines, conveying a unique and enjoyable flying experience.

One of Southwest's key strategies was its focus on operational efficiency. In the 1970s and 1980s, the airline became known for its rapid turnaround times on the ground. By organizing ground services such as passenger disembarkation, refueling, cabin cleaning, and boarding to take just ten minutes, Southwest maximized aircraft utilization. These quick turnarounds became a hallmark of the airline, although turnaround times increased as the company grew. However, Southwest's turnaround times remained significantly shorter than those of its competitors.

Southwest also simplified its fare structure to appeal to different customer segments, offering two ticket rates: one for business travelers during peak hours and another for price-sensitive customers who flew after 7:00 p.m. This straightforward pricing strategy

quickly became a standard in the airline industry. By 1973, Southwest further streamlined its pricing by reducing all fares to the lowest rate, regardless of departure time.

Another significant operational strategy was Southwest’s decision to avoid overcrowded, major airports in favor of smaller, more efficient airports in large cities. This choice not only saved the airline money on fees but also reduced wait times for passengers, offering a more convenient and stress-free travel experience.

Until 1978, Southwest operated exclusively within Texas. However, following the deregulation of the airline industry, Southwest began expanding its services to other states. A key aspect of Southwest’s operational strategy was its exclusive use of Boeing 737 aircraft. By standardizing its fleet, the airline reduced costs related to purchasing, maintenance, spare parts, and staff training, significantly contributing to Southwest’s low operating costs.

Turnover 2024:	24,6 Billion USD
The Board of Directors:	
Chairman of the Board:	Gary C. Kelly (2008—present), Herbert D. Kelleher (1978—2008) Lamar Muse (1971—1978)
President & Chief Executive Officer (CEO):	Robert E. Jordan (CEO) (2022—present), Colleen Barrett (President) (2001—2008), Herbert D. Kelleher (1982—June 2001), Harold Putnam (1978—1982), Lamar Muse (1971—1978), Gary C. Kelly (CEO) (2004—2022), Jim Parker (CEO)(2001—2004)

Herbert “Herb” Kelleher became CEO of Southwest Airlines in 1981, overseeing a period of rapid expansion. Under Kelleher’s leadership, Southwest became the third-largest airline in the U.S. by the early 2000s and the largest domestic carrier by 2004. Southwest’s success was not just due to its low-cost strategy but also to the unique corporate culture that Kelleher championed. His hands-on management style included direct interaction with employees and a deep commitment to employee satisfaction, believing it was key to customer satisfaction. Kelleher famously stated, “You have to treat your employees like customers. When you treat them right, then they will treat your outside customers right.”

Southwest’s hiring practices emphasized attitude and personality over industry experience. The airline sought individuals with a positive mindset and a good sense of humor, believing these qualities were essential for maintaining the company’s culture. Once hired, employees underwent training at Southwest’s University for People, focusing on coaching and encouragement rather than supervision and rule enforcement. Southwest also implemented a one-year trial period for new hires to ensure they were a good fit for the company’s culture.

Southwest’s commitment to its employees extended to its management practices. Managers were expected to spend a significant portion of their time outside the office, interacting with employees, and addressing their concerns. This open-door policy fostered a culture of transparency and communication, empowering employees to take the initiative and contribute to the company’s success.

Southwest also prioritized employee engagement and participation in the company's success. Employees held approximately 10% of the airline's outstanding shares and options worth \$138 million over ten years. The company's commitment to job security was another hallmark of its employee-centric culture, maintaining high morale and loyalty among the workforce.

The combination of a low-cost, efficient business model and a strong corporate culture translated into exceptional customer service. Southwest Airlines consistently ranked among the top U.S. carriers for customer satisfaction, earning high marks for on-time performance, low complaint rates, and overall service quality. The airline's employees were known for their friendly, personable interactions with passengers, often going above and beyond to ensure a positive travel experience. This commitment to customer service was deeply ingrained in Southwest's culture, which valued humor, creativity, and a genuine concern for the well-being of passengers.

Southwest's ability to maintain low costs without sacrificing service quality was a key factor in its competitive advantage. While other airlines struggled with fluctuating fuel prices, labor disputes, and operational inefficiencies, Southwest's streamlined operations and employee-centric culture allowed it to remain profitable even during industry downturns.

Exercises

1. Name Southwest's strategic capabilities as described by Herbert D. Kelleher.
2. Explain Southwest's strategic capabilities based on Porter's value chain.
3. Draw up a SWOT analysis for Southwest.
4. Assess the strategy selected by Southwest based on a strategic approach. Also, describe its advantages and disadvantages.

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Organization

6

“First, we shape our structures, and afterward, they shape us.”

Winston Churchill

The organization — the structure — of an enterprise should always be considered in the context of strategy and culture. An isolated view should be avoided as far as possible since otherwise unrealistic and fictional organizational solutions are implemented and the organization is run as an end in itself. The integrated model of the enterprise illustrates the dimensions of the magic trilogy and the cross-relationships between them and with other dimensions. The systemic view has had various effects on organizational questions in the past, both in the search for new, innovative organizational tools and in the debate on the subject of strategically oriented organization. New organizational models are to be encouraged by aligning them with the company’s strategy and culture (Laloux 2014, 1ff.).

View from the Media: Unilever: battling the matrix would bring marginal improvement

Consumer goods group’s underwhelming growth may be about to change.
Financial Times, February 9, Opinion Lex

Nelson Peltz catalysed a shake-up at consumer goods giant Procter & Gamble during his board tenure. Could the US activist investor do the same at investee company Unilever, now the Disney campaign is over and he has time on his hands? Investors certainly hope so. While Unilever’s results show some bright spots — including a contained volume decline in the face of rapidly increasing prices — P&G’s total shareholder return beats Unilever’s into a cocked hat, with an acceleration after 2018. The driver of P&G’s superior performance has been stronger revenue growth. It has sold weaker businesses, including the 2015 disposal to Coty of 43 beauty brands for \$12.5bn. And it has delivered really cracking execution across the rest of the portfolio.

Part of this may be down to Peltz’s hatchet job on P&G’s organisational thicket. It led to the group streamlining a complex matrix that had 10 separate global business units and another six operational divisions. Meanwhile, Unilever has been plagued with underwhelming growth, especially in volume and mix. But this may be about to change. While the activist investor has not overtly pushed for changes at the com-

pany, the group has embarked on its own Peltz-style turnaround plan. It is rushing to bed down its new organisation, which is of the sort Peltz likes. It has five big divisions (home care, personal care, beauty and wellness, nutrition, and ice cream) each responsible for its overall P&L. This has involved slimming down corporate headquarters, and will reduce costs by €600mn. Meanwhile, Unilever announced a near €1bn increase in marketing, capex and R&D for 2022, reversing a period of shrinking investment in the business. And, strikingly for a company that has tended to grow managers up the ranks, it has brought in an outside chief executive, Hein Schumacher, who Peltz endorses. These all look like smart moves. The benefit will not shine through for some time to come — Unilever is forecasting price increases and margin declines continuing into the first half of this year. But those who believe in Peltz's powers of persuasion, or at least in his ability to time his share purchases, will be betting that Unilever can narrow its 25 per cent discount to P&G.

<https://www.ft.com/content/09fdf695-9c00-494a-a805-7f7386967e5d>

6.1 Introduction

In accordance with Chandler's insight (1962) that "structure follows strategy," the only successful enterprises are those that can design their structure so that operational activities always support their strategy. Only those who can harmonize the magic trilogy of strategy, structure, and culture will achieve success in the long term. The question of the right organization has long been a primary focus of attention and has been answered in different ways in the past (Drucker 2005, 73ff.).

An enterprise's organizational design is characterized by the division of work and rationalization — in other words, by functional structures. In a further development, corporate structures may be decentralized in the form of divisional organizations and concepts involving product managers (matrix organization).

As a consequence of the increased orientation towards value creation, customers, and processes, approaches such as lean management, network organization, virtual organization models, cluster organizations, or process management are now current (Figure 6.1). One way of examining this interplay of organizational forms is from the point of view of centralization and decentralization. The question of an organization's degree of centralization is a constant challenge to organizational design. As social systems, modern enterprises need organization in the same way as every biological system. However, it has been shown that the real issue should not necessarily be the question of the right organization.

Biological systems illustrate how organizations function and prove that a large number of different structures exist and can be successful. In the modern enterprise as a social organism, differing organizational solutions for reaching corporate objectives can also be envisaged. Managers do not have to look for the right organization but must instead learn to develop and apply the organization that best fulfills the tasks.

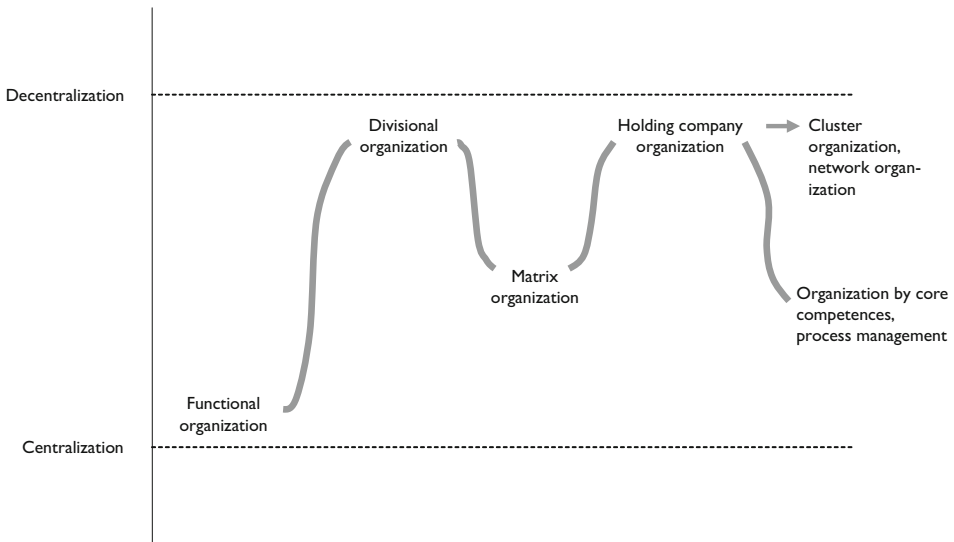


Figure 6.1 Degree of Centralization and Forms of Organization

It is an undisputed fact that organizational structures are needed in management. However, questions arise regarding their extent, principles, tools, and organizational form. Differing answers are often found from both practitioners and organizational researchers. Nicolas G. Hayek (Bartu/Hayek 2005, 64-65) supplies one pithy and practical answer:

Example

Statement on organization: the banana kiosk by Nicolas G. Hayek, Swatch Group

“... I really detest anything to do with hidebound organizational structures. Organization is the most impossible thing in the world. Completely contrary to human nature. If you retort that I create organization and structures as well, I will explain using the story of the banana kiosk. You open a banana kiosk at Zurich Airport. You buy and sell bananas and decide how much money you earn you want to bank and how much you want to use to buy more bananas. You don’t need organization for that, just entrepreneurial flair and skill. If, however, your wife comes along one day and says” “..., I’d like to open a kiosk like that at the main railway station,” and if she actually does it, then you need a minimum of organization. It is just a matter of information here — the information flow is the most important part of any organization — so that if one of you has sold out of bananas and the other has some on inventory you can help each other out. If, however, you and your wife together get so successful that you decide to open kiosks in 30,000 towns and in addition to sell not only bananas but also apples, oranges, chewing gum, cigarettes, newspapers and a host of other things, then you need — whether you want it or not — a permanent organizational structure that protects this system and allows it to grow. Because no human brain can control a system that complex without

organization and without coordinating with everyone concerned. So you grit your teeth and create an organization, ideally, just one that includes only the essential functions absolutely necessary to make this system function perfectly.

(...) My philosophy has always been that any organizational structure must only contain the essential and maximum functions.” ◀

This answer illustrates the opinion that organization should not be an end in itself. Organizing in this sense means that the individual activities in an enterprise have to be designed in a goal-oriented and efficient way. Every enterprise implements an organization in three different areas, which will take different forms depending on the situation: structure, procedures (processes), and management.

These organized areas have different tasks and objectives. For example, procedural or process organization aims to optimize internal processes and is primarily interested in securing and improving efficiency. The structural organization has to establish the prerequisites for achieving the business objectives concerning products and markets. Its main objective is to improve effectiveness through organizational design tasks (Suarez/Montes 2020, 48). There is a close link between establishing rules about responsibilities and the structural organization. To support the strategic objectives, management concepts need to be installed that guarantee and secure the enterprise’s controllability.

These organized areas have different tasks and objectives. For example, procedural or process organization is aimed at optimizing internal processes and is interested primarily in securing and improving efficiency. The structural organization has to establish the prerequisites for achieving the business objectives in relation to products and markets. Its main objective is to improve effectiveness through organizational design tasks. There is a close link between the establishment of rules about responsibilities and the structural or-

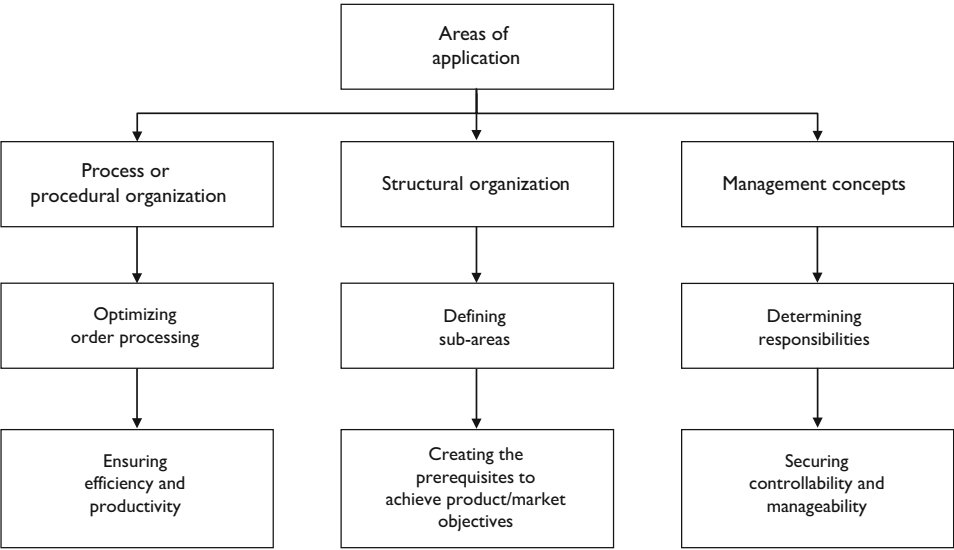


Figure 6.2 Areas of Application for Organization

ganization. To support the strategic objectives, management concepts need to be installed that guarantee and secure the enterprise's controllability.

Organizational questions often relate to optimization processes. Because more and more tasks and activities are becoming more irregular and arise less frequently in the same form, organizational design is now a process of constant seeking in coordination with strategy. An enterprise can be regarded as being optimally organized if all regular and similar processes are decided and executed on the basis of generally applicable rules (Hodgkinson/Sparrow, 2002, 46ff.). In practice, this optimum situation does not last long, because changes occur. Depending on the situation, an enterprise is more likely to be over organized or underorganized. An enterprise is over organized if dissimilar, and irregular processes are covered by permanent rules. Similarly, an enterprise is underorganized if too few repetitive tasks are regulated.

A term used in this connection is "substitution process". Organization can be understood as the replacement of case-by-case rules with general ones. However, the more frequently changeable business situations arise, the less frequently general rules can be applied. This search for the optimum degree of organization represents a significant challenge to organizational design, particularly in current organizational practice. Organizational rules, principles, and tools consequently affect all areas of the organization at widely differing levels, from operatives to top managers.

Below are some fundamental thoughts about organizational dimensions and the basic principles and tools of organization explained. This chapter is rounded off by an outline that differentiates the various forms of organization and sets forth their advantages and disadvantages. The discussion of organizational theory concludes with a detailed explanation of process management and the concepts that influence it.

6.2 Holistic View of Organization

As described above, the organization of an enterprise should not be reduced simply to issues of organizational structure, but considered from an integrated point of view. Like other management areas, organizational theory has always been strongly influenced by ideas from system theory (Crowe/Beeby/Gammack 1996, 121ff.). But what constitutes a holistic view of the phenomenon of organization? What are the guidelines for its analysis and design? What criteria best describe organizational fitness? And what principles and tools should be used for organizational design?

When dealing with these issues, it is helpful to assume that an organization represents a complex configuration. This configuration is made up of a variety of elements and demands a differentiated view. Various approaches attempt to give conclusive answers; for example, Gomez/Zimmermann (1993) and Mintzberg (1979).

According to Bleicher, an enterprise’s organization can be comprehensively described on the basis of several dimensions. The dimensions represent dichotomies and illustrate the poles between which the strategically oriented organization can be aligned. The eight dimensions are as follows (Figure 6.3):

- Task-centered versus person-centered orientation
- Formalization versus symbol orientation
- Efficiency versus effectiveness orientation
- Permanent versus temporary organization
- Monolithic versus polycentric orientation
- Steep versus flat configuration
- Identity development versus contextual adaptation
- External versus self-design

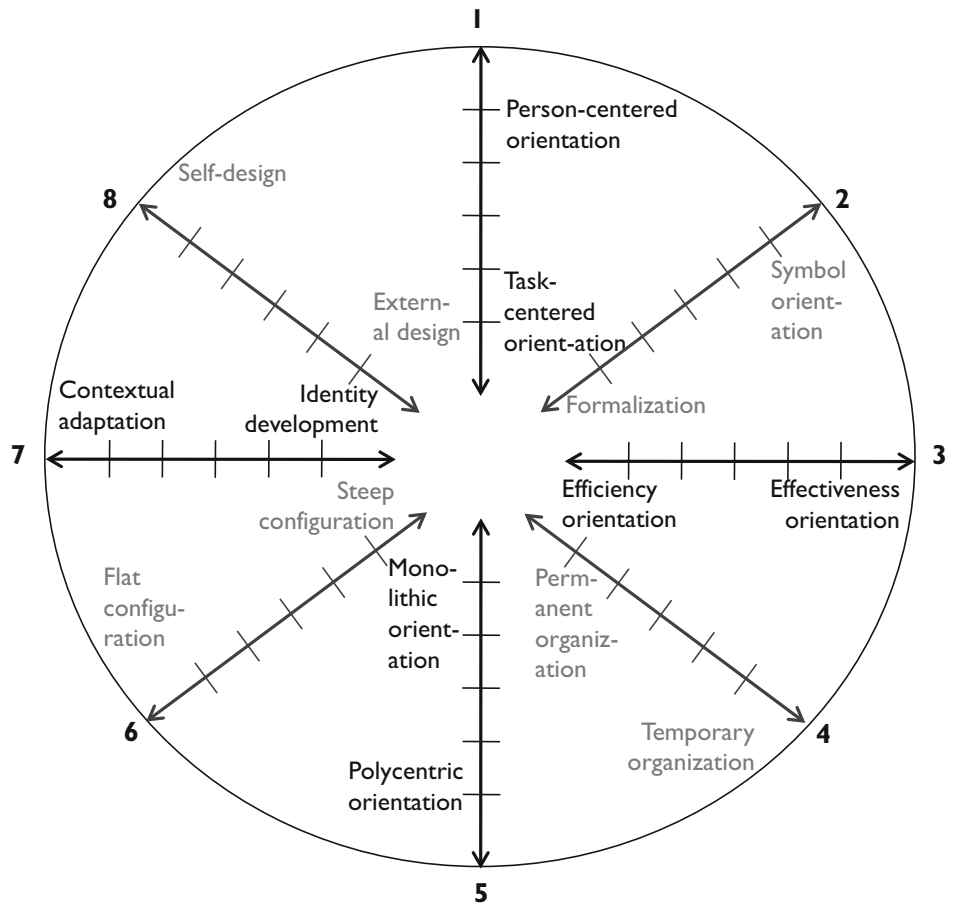


Figure 6.3 Dimensions of Organizational Structure
Source: Bleicher (1991), 60

The organization can be profiled by a task-centered versus person-centered design. If the organization is more geared towards objective/rational aspects, the emphasis is on a structure of tasks in accordance with a clearly defined requirement specification, and the matching operatives or executives are sought. Organizational tools are given clear priority. The person-centered form bundles tasks in such a way as to allow employees' motivation and skills to reach optimum effectiveness.

Formalization versus symbol orientation embodies, on the one hand, the extent to which organizational rules are set down in writing and documented. For example, tasks, competencies, responsibility and the operational process are explicitly formalized. The aim of this technostructure is to achieve the correct fulfillment of tasks through a high number of rules. On the other hand, symbolization should be mentioned. This approach attempts to exert an influence through behavioral norms, artifacts, customs, and taboos. It endeavors, in combination with person-centered aspects, to strengthen employees' loyalty to the enterprise.

Synthesis 1: Technostructure and Sociostructure

These first two dimensions can be combined and describe two typologies: the technostructure and the sociostructure. The task-related "technostructure" generates the task-centered design and formalization, whereas the person-related "sociostructure" comprises the person-centered and symbol orientation.

In the case of efficiency orientation, an attempt is made to break down tasks and program sub-tasks with clear rules and little variation. This approach leads to cost reduction and rationalization potentials. With the effectiveness orientation, open, unspecific rules are used to define the sub-tasks and operational processes with a high level of variation. The central focus is on the purpose-centered formation of task complexes. The organizational structuring of the strategic units is targeted and flexible and may vary from case to case.

A permanent organization approves organizational rules without time limits and assigns responsibilities in a very general way. The organizational elements are changed relatively rarely. Temporary organization is characterized by rapid change and the adaptation of organizational rules. The timing is defined by a deadline or the completion of a special task.

Synthesis 2: Regulatory character

The dimensions described here are an expression of an organization's regulatory character. The efficiency orientation and permanent organization are characterized by a "mechanical structural organization", while the effectiveness orientation and temporary organizational rules tend more to favor "organic process organization". The next dimension discusses the dichotomy between monolithic and polycentric views of organization. Monolithic structures aim at synergies and are characterized by the centralization of decision-making power at the top management level. Polycentric configurations champion decentralization of responsibility at the highest professional competence level.

Steep configurations are mostly a consequence of organizational work division, whereby numerous organizational units are formed and distributed over the various hierarchical levels. Narrow spans of control are an obvious attribute of steep configurations. In contrast, flat configurations attempt to form a few units with less task structuring. Broad spans of control and a small number of management levels are characteristic of flat configurations.

Synthesis 3: Configuration models

To combine these two dimensions, in turn, hierarchies are the outcome of monolithic design and the steep configuration. Networks result from polycentric structuring and a flat configuration.

Organizations with the dimension of identity development strive for uniformity and provide little scope for the individual design of organizational sub-systems. Integration or centralization is essential so that clearly defined areas of responsibility can be formed. The opposite profile — contextual adaptation (exogenous orientation) — plans to include the expectations of and changes in crucially important environmental segments as ideally as possible. Therefore, initiative and a large degree of delegative scope for individual sub-system development are required. The main focus is on the effectiveness of networking with the outside world. The last dimension devotes itself to the form of the organization's development and control. External design is characterized by a top-down approach. Employees other than top managers are squeezed into a predetermined process system. With this "shotgun" approach, those affected by organizational design are in the majority. Self-design is the contrasting form. It is developed bottom up and attempts to involve a large number of employees.

Synthesis 4: Direction of structuring

Identity development and external design form the standard pattern of external organization. The organization strives for synergy. Duplications are eliminated by centralization. Self-organization can be described as a combination of contextual adaptation and individual design. This form strives for flexibility.

These dimensions are suitable as a classification matrix for analyzing (actual profile) and designing (target profile) an enterprise's organizational position. If the attributes of an organization tend to lie in the inner circle, it is more likely to be a stabilizing organization. If the profile favors attributes in the outer circle, it can be described as a developing organization. It is argued here that each profile has its own justification in practice. In phases of change, the developing organization should be given preference, while in phases of stability, the stabilizing form should come into its own (Gomez/Zimmermann 1993, 83ff.)

The question of organizational configuration is posed in various ways in the dimensions. Mintzberg's (1979) approach also provides a holistic view of the organization and is not just reduced to the organizational structure. Organizations can be understood as complex configurations of components between which there are coordinating mechanisms. Mintzberg distinguishes five components:

- *The strategic apex*: Top management of the organization
- *The operating core*: Locus of the direct production of value-added
- *The middle line*: The managers between the operating core and the strategic apex
- *The technostructure*: Development of the management systems and control of the operational processes in the operating units (e.g. financial specialists, computer specialists, engineers)
- *Support staff*: Employees who support the operating units (e.g. canteen, auxiliary personnel, secretaries)

The components and coordination mechanisms can vary widely in size and importance, depending on the corporate situation and environmental conditions. Coordination mechanisms may be supervised by top and middle management. On the other hand, various standardization elements are ideal for exercising a coordination function. Operational processes, output, and their required skills can be standardized.

According to Mintzberg, these components and mechanisms of coordination can be divided into five basic configurations: simple structure, machine bureaucracy, expertocracy, dimensionalized form, and adhocracy.

The simple structure is encountered particularly often in small and mid-sized enterprises. One strategic apex is sufficient, with a strong operating core. No explicit technostructure or support staff is in place for a number of reasons. On the one hand, the financial and human resources are not available, while on the other the environment is regarded consciously or unconsciously as less complex. When specific problems arise, external resources are used, e.g., consultants or IT specialists. The advantages and disadvantages are obvious: The flexibility to respond to change and the lack of overhead costs allow the enterprise to operate at low cost. Negative factors undoubtedly include the danger of overtaxing the top manager(s) and the lack of in-house development of strategically relevant knowledge (Bleicher 1991, 65ff.). Also, it is implicit in the simple structure that it is not perfect for rapid business growth because, sooner or later, the spans of control will be too far apart.

The machine bureaucracy is very much a technostructure and displays strong standardization elements in various areas. This form normally develops several hierarchical levels of middle-line management over decades to manage the mounting number of employees. Staff departments and technical support structures are built up to master the rising tide of information. This configuration enables the organization of large enterprises with many thousands of employees. The most significant disadvantages are to be seen in the number of hierarchical levels and the risk of uncontrolled expansion of the staff departments and technostructure. The top management is increasingly too far removed from the markets and the enterprise loses optimum ability to adapt to changes in the environment.

In the expertocracy, also known as professional bureaucracy, great importance is given to the support staff and the experts in the operating core. Middle-line management is weak. Consequently, operational and strategic decisions are relatively quickly delegated to the experts on the ground. The risk is that the staff departments become inflated and, together with the experts, form a separate organizational system with its own dynamics. Spiraling overhead costs are often the result. The risk prevails that the non-market-facing staff departments will not stimulate business development in any significant way.

Divisionalization is often a configuration chosen by growing companies. Divisionalization starts from the advantages of the simple structure and attempts to avoid the disadvantages of the machine bureaucracy. Instead of an overall configuration, sub-configurations are created on the model of the simple structure. Top management needs a small number of line managers, a small technostructure and a small number of efficient staff departments for coordination. Thus, even a large company can have short decision-making paths. The individual divisions have a great deal of decision-making scope in the market and in their own internal processes. In adhocracy, the project structure is fixed only to a limited extent. In this fluid structure, experts from various disciplines are grouped in teams. Activities are coordinated by

project organization and informal communication. The experts are spread across the entire organization and constantly shift the balance of power. Decisions are primarily made not hierarchically but on the basis of expertise. With this configuration, the enterprise can adapt quickly to new internal and external conditions. The lack of fixed structures means that activities can be challenging to coordinate, however. Some creative teams of experts may make themselves autonomous and are hard for top management to control. Because of this constellation, this configuration mainly comes into its own for short periods and in small, innovative enterprises.

6.3 Organizational Principles

6.3.1 Basic Principles

The organizational dimensions and the various possible configurations for an enterprise clearly illustrate the diversity of organizational challenges and solutions. An overview of the different organizational decisions shows their logical structure as follows: The starting point is to define the strategic objectives and tasks that determine the organizational objectives. The analysis and concept of the organization are supported by a number of principles and tools. Organizational quality is strongly influenced by a few important, clearly applicable principles. The main ones comprise the formation and grouping of jobs, the question of specialization, the delegation principle, and the unity of tasks, competence, and responsibility.

6.3.2 Creating and Grouping Jobs

The job is the smallest organizational unit in an enterprise. It can be done by one or more people and consists of one or more tasks that have to be performed with the tools provided. Job design is mainly geared to the objectives and purpose of the job.

An important element of job design is to bundle the tasks and the principles for its formation. For example, the following principles of job design can be listed (Nauer 1993, 49f.):

Practical task bundling

In addition to technical aspects (standardization and specialization), human and psychological considerations are included.

Example: the employee can position his performance more easily in a larger context (identification) and is motivated accordingly.

Varying sub-tasks

Job enlargement: increased variety of tasks. Job enrichment: tasks are enriched with complex and problematic elements containing opportunities to make decisions.

Profession-based task bundling

The assignment of tasks should take the existing professional disciplines properly into account. Jobs designed to contain activities from several disciplines are harder to staff, e.g. product manager positions.

Balanced workload

The volume of the tasks assigned to a job should correspond to the job-holder's potential. Constantly being overtaxed (stress) or undertaxed (boredom, decreasing motivation) should be avoided.

Appropriate degree of self-determination

When forming tasks, the objectives and ancillary conditions should first be determined and communicated in order to leave sufficient scope for action in terms of methods and approaches.

6.3.3 Specialization

When Henry Ford initiated assembly line production, he proved that processes can become more efficient when employees specialize in a single activity. Since that time, work specialization (division of labor) has defined the extent to which an organization breaks down its tasks into separate operations. The core of the division of labor consists of several individuals sharing a task with every individual involved specializing in a sub-task (Robbins 2001, 484ff.).

Work specialization means that organizations can be more efficient in a variety of ways:

- Sub-tasks can be handled by untrained, low-skilled employees who are therefore inexpensive.
- The constant repetition enables employees to keep improving and to execute the operations faster.
- It is more efficient and inexpensive to recruit and train low-skilled employees.

In the first half of the 20th century, division of labor represented an inexhaustible source of productivity increases in the eyes of corporate managers. This is true to the extent that work specialization has led to productivity increases, sometimes huge ones, wherever it has been introduced. In the 1960s, however, it became increasingly clear that the consequential human cost of specialization (boredom, exhaustion, stress, low productivity, poor quality, increased absenteeism, and increasing staff turnover) far outweighs the economic savings).

As a result of this finding, work activities have tended to be expanded again and enriched by varied tasks. These actions lead to greater output for the enterprise and higher job satisfaction for employees. With today's knowledge, it is clear that work specialization is not out of date, but neither is it a miraculous way of improving production. When correctly used, it can save costs and avoid the above-mentioned problems.

6.3.4 Delegation

With proper delegation, managers can focus on their core tasks and the employees assigned to them receive greater scope in the performance of their tasks. Delegation is generally the term used for the transfer of tasks that are relatively clear and are known some time

in advance. Delegated tasks must be differentiated from ones that arise suddenly (improvisation) or tasks that can be planned and organized in the long term (job specifications).

A number of principles have to be observed when delegating tasks. The following should be mentioned:

- Assign tasks fully and completely; no isolated sub-tasks.
- Tasks and the necessary authority to fulfill them must be delegated together.
- Delegate repeat tasks to the same job.
- The difficulty of the delegated tasks should correspond to the employee's training and skills.
- Tasks are performed at the lowest possible hierarchical level.
- Transfer of the task back to the original person should be avoided.

A number of prerequisites have to be in place in the business and its managers for these principles to be observed wherever possible:

- Managers and employees have to know the objectives of the total organization and their own jobs.
- Managers are more ready to delegate when the whole team's performance is assessed rather than just their own.
- It is desirable to involve employees early and reach agreement on the goals and targeted results of the task.
- The employee needs to have certain skills in order to be able to take on tasks. The manager is responsible for seeing that these skills are developed, as well as for the delegation.
- Full instructions should encourage autonomy and prevent the task from being delegated back.

The level of delegation defines a job's freedom and independence vis-à-vis the departments that are (directly) connected to it. Ideally, these details can be taken from the job description. A low level of delegation exists, for example, with supporting tasks, whereas greater delegation is achieved when, for example, responsibilities or decisions are delegated. A high level of delegation eases the burden on those in superior positions, who can then concentrate on strategic and planning tasks (Figure 6.4). In addition, a high level of delegation provides more satisfaction for the subordinate job if the holder can perform the tasks assigned well. A drawback can be that employees are overtaxed. A high level of delegation therefore requires qualified and responsible employees.

Poor delegation is widespread, and a variety of delegation errors can be identified. The errors made by managers are often easy for outside observers to see. However, it is apparently much more difficult to follow the basic rules and principles in your own sphere of responsibility. The following delegation errors can be listed as examples:

- Lack of trust in employees
- Manager fails to undertake the role-model function sufficiently
- Delegation primarily of unpleasant tasks
- Isolated sub-tasks where the purpose is hard to ascertain

- Delegation of one task to several employees (independently of one another)
- Tasks handed back to delegator
- Fear of loss of indispensability

Delegation is closely associated with the principle that tasks, authority and responsibility should be geared to one another. These factors should be harmonized. Above all, it is essential to delegate not only responsibility is delegated, but also the necessary authority. In the organizational sense, authority is understood to mean the ability to execute a certain task and is defined as a right of action. In order to fulfill a task, the delegatee must have appropriate rights at his disposal.

The following basic forms are distinguished:

- Application authority: The initiative lies with the employee. He has to apply for the authority to perform each task delegated to him (advertising budget, hiring of an employee, etc.).
- Executive authority: The employee can determine his approach (within the rules) himself (withdrawals from warehouse, invoicing etc.).
- Disposal and decision-making authority: The employee has the necessary resources at his disposal and can decide between different courses of action.
- Instructing authority: This implies the right to delegate certain tasks onwards to a subordinate position.

It must be noted that all authorities should be passed on to allow a task to be performed correctly. Otherwise, it may be returned to the delegator.

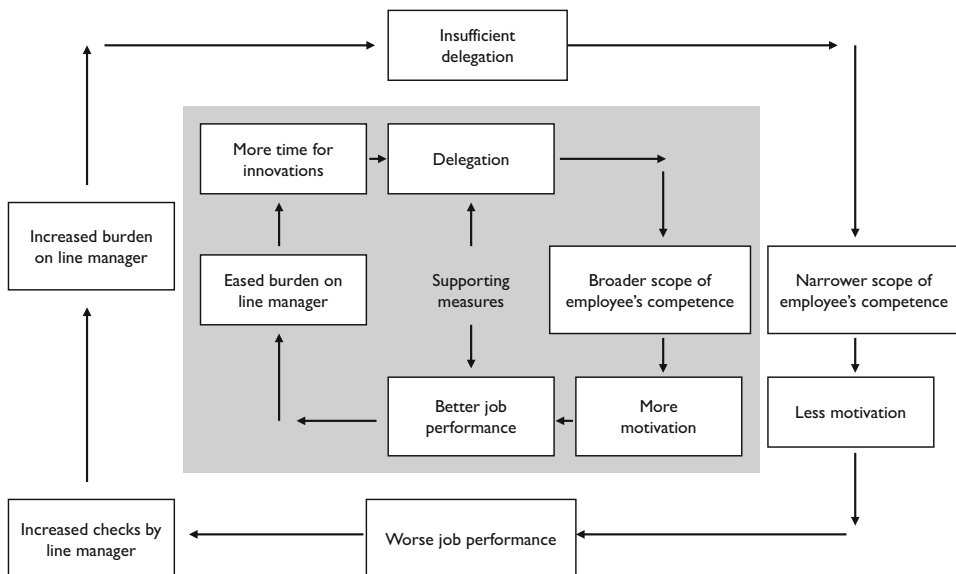


Figure 6.4 Vicious Circle of a Lack of Delegation

Once the tasks and the authority to do them are aligned, the question of responsibility remains. How much responsibility is appropriate has been widely discussed, particularly by practitioners. The established opinion is that only operational responsibility can be assigned or delegated, but not management responsibility.

6.3.5 Span of Control and Management Levels

“Never use instructions from above as an excuse for wrong actions.”
Roger Meade

A distinction can be made between the horizontal and the vertical grouping of jobs. Horizontal grouping aggregates jobs in accordance with the business objectives by function, product, region, or customer. On the one hand, the horizontal design poses the question of centralization versus decentralization for the enterprise. In practice, on the other hand, the discussion about the optimum span of control predominate.

From the vertical point of view, management has to decide how many management levels are needed to fulfill the tasks. Is the goal of organizational design a flat hierarchy with few management levels but a wide span of control? Or is steep structuring of the hierarchy intended, with several levels and inclining towards a smaller span of control? Depending on the size of the enterprise and its tasks, two management levels may be sufficient.

The management levels are, therefore, directly connected to the span of control. However, what number of employees can reasonably be managed? In general, it is assumed that five to seven employees can be adequately led or supervised (Figure 6.5). Small spans of control have some important disadvantages. They are expensive because they lead to additional management levels. Vertical communication and decision-making become

Management concepts with

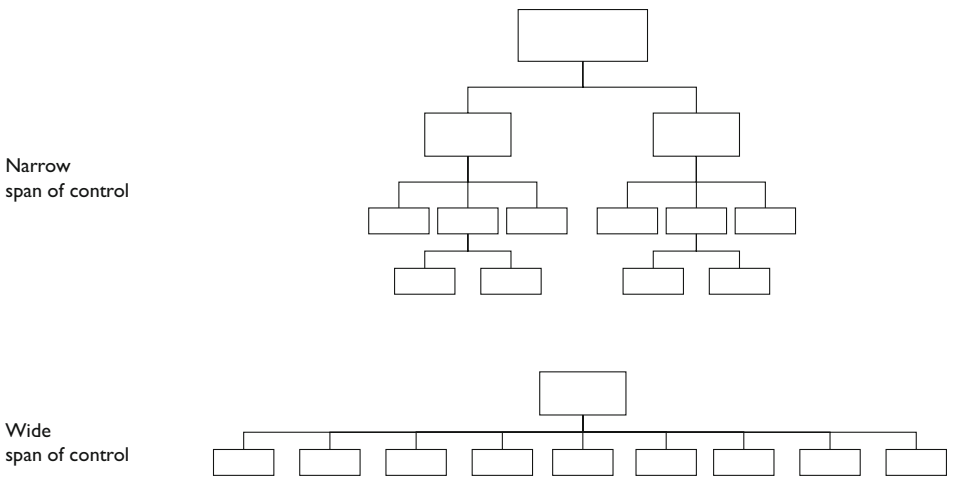


Figure 6.5 Span of Control

slower and more difficult. Small spans of control can also lead to excessive supervision of subordinate employees. The optimum span of control is influenced by the managers' and employees' abilities, the level of difficulty and the variety of the tasks, the form of management, and the support provided by technical tools.

Past years' trends clearly indicate a move towards wider spans of control. This is in accordance with efforts to save costs, reduce administrative effort, make decision-making more efficient, improve flexibility, increase proximity to the customer, and assign more individual responsibility to employees. Expansion of the span of control, however, requires extensive further training of employees. It is also advantageous if employees know their area of responsibility inside and out and can also turn to colleagues when problems arise.

6.3.6 Types of job

A distinction can be made between line jobs, staff jobs, corporate services and matrix jobs. Line jobs are characterized by a clear division of work. They make decisions that are binding on other jobs and convert them into instructions for subordinate jobs. For line jobs, the line shows the official channels, the reporting relationships and the rights to issue instructions to other employees (managerial authority). Line jobs have functional and disciplinary authority vis-à-vis other jobs:

- Functional authority refers to the way in which the job is performed (place, time, resources, processes etc.).
- Disciplinary authority refers to all actions that concern the employee directly as a person (absence, vacation, qualifications, further training, hiring, dismissal etc.).

Advantages:

- Clear delegation of tasks, responsibility and authorities
- Assignments from a single source
- Quick and clear decisions possible
- Cross-relationships are avoided

Disadvantages:

- Coordination has to be performed by the boss, which can lead to a backlog of problems in top management.
- Cross-departmental tasks are difficult to coordinate.
- Corporate policy objectives are dominated by departmental thinking.

In contrast to line jobs, staff jobs provide support, ease burdens, and provide advice. Staff jobs have no management authority and always report to a management position.

Advantages:

- They ease the burdens of top management.
- Specialists are used for new, innovative tasks.
- Training pool for up-and-coming employees.

Disadvantages:

- Due to the direct contact with management positions, staff jobs acquire major informational power.
- Staff employees lose motivation because of the lack of managerial competence.
- There is often a wide gap between the self-image of staff and line personnel.

Three different staff jobs can be distinguished: Personal staff jobs (top management assistants), specialist staff (IT), and managerial or general staff with planning and coordination tasks.

In order to avoid the above-mentioned disadvantages of the staff jobs, some prerequisites should be put in place:

- Staff employees should never have managerial authority over line employees.
- The right of information applies vis-à-vis all jobs.
- Line employees have the right to advice, staff employees the obligation to advise them.
- An understanding between staff and line that is supported by the employees should be developed through targeted career development.

The third type, corporate services, does have functional managerial authority. These employees perform support services for several management positions, and consequently constitute centralization of special tasks.

Advantages:

- Effective deployment of functional specialists.
- Eases burdens on line jobs.
- Prevents a backlog of specialist problems at the top of the enterprise.

Disadvantages:

- Corporate services tend to have their own dynamic and tend to take over business tasks from the line jobs over the course of time.
- If functional management authority is not precisely defined, conflicts of competence may arise.

The centralization of specialist tasks is also of core importance to matrix jobs. In contrast to the corporate services, matrix jobs have equivalent rights vis-à-vis the other jobs, in other words, a second, equivalent business dimension arises.

Advantages:

- Due to their organizational integration, the matrix jobs are of equivalent importance to the others.
- Specialist knowledge benefits all jobs the employee works across.

Disadvantages:

- Inadequate definition of authorities leads to conflicts.

6.4 Organizational Tools

6.4.1 Organizational Chart

The application and regular deployment of key organizational tools can be comparative advantages for an enterprise. Tools for organizational analysis, design and implementation are used. Visualization tools like the organizational chart are important for organizational analysis and design in particular. The primary task of an organizational chart is to show the division of tasks within the enterprise and the positioning of and links between the individual jobs (Figure 6.6). The name of the job holder, the number of jobs, or even the cost centers are often stated in the organizational chart.

Organizational charts are shown in quite different ways. To preserve readability and meaningfulness, however, some core points should be retained:

- Visualization of the basic division of tasks
- Clear visualization of relationships of subordination (reporting relationships)
- Clear labeling of task packages

In addition, it is useful to include supplementary features:

- Distinguish between line and staff jobs
- Show the hierarchical positioning
- Mark important cross-relationships

Even if the above criteria are observed, organizational charts are often less meaningful than they could be. The problem is often organizational charts, where the different levels of the organization make it difficult to gain insight into the relationships. Nevertheless, practiced and experienced readers of organizational charts can identify certain specific features and problem areas. For example, these could include a large number of permanent jobs, full-time deputies, numerous staff jobs, a large number of project teams, or the size of the span of control.

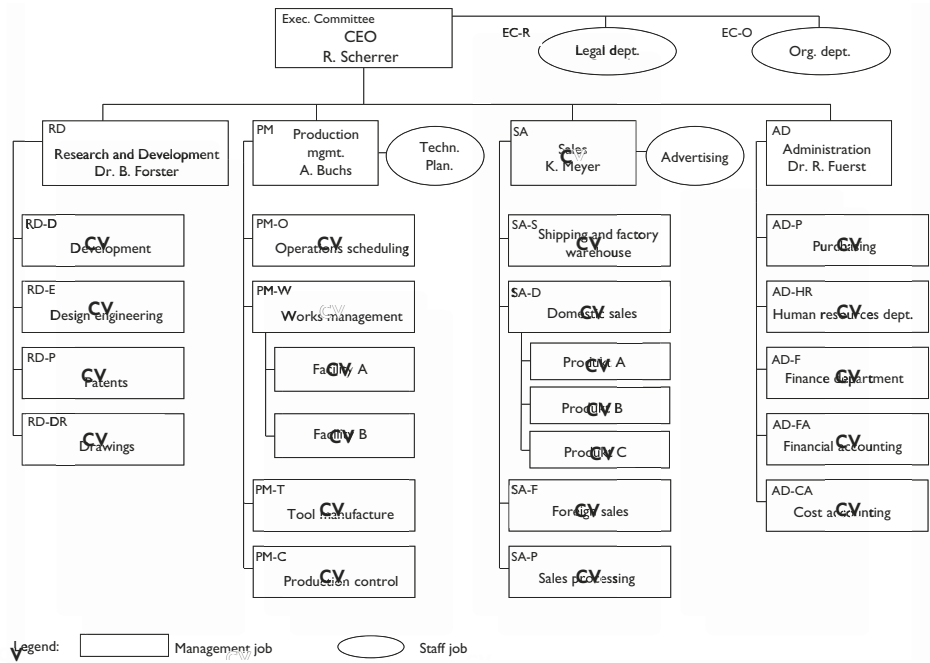


Figure 6.6 Organizational Chart with Line and Staff Jobs

6.4.2 Job Contract and Job Description

There is a wide choice of tools for organizational implementation. The main ones to mention are the job contract, employee appraisal, job description, workplace rules and function diagram. The right choice, the purpose, hierarchical level and desired level of detail determine how these tools are used within an enterprise.

The purpose of the job contract is to precisely formulate a job's mission statement. The job contract is suitable primarily for senior positions. It is made up of the following four elements:

Organizational positioning

This element contains information about the hierarchical position, relationships, and arrangements for deputization.

Objectives/responsibilities

This contains the five to eight most important objectives, tasks, and responsibilities, as well as the allocation of resources defined based on these.

Performance standards

The achievement of objectives is measured on the basis of quantitative and qualitative criteria.

Competence restrictions

Contains the limits on the job-holders authority, e.g., budget limits

Different terms can be cited for the job description, including “job specification” or “function description”. The job description elaborates on the organizational positioning, tasks, competencies, and responsibilities, as well as the most important relationships for a job. Although other tools are gaining importance, job descriptions remain the key organizational tool for implementation at present because they are still appropriate for relatively independent jobs within a business or when a post is to be refilled. The job description is normally made up of the following elements:

- The name of the job
- Its hierarchical position in the organization
- The objectives and main tasks. Five to eight main tasks should be defined here that the job-holder’s superior manager wishes to see fulfilled.
- Meetings and committees. These elements show commonalities with the job contract, but the tasks are broken down and described in more detail in the job description.
- Management tasks. Here, the job-holder’s actual tasks as a superior are described (management, organization, deployment, instruction, and development of employees).
- Operational tasks (partly delegatable). It is also advisable for relatively independent jobs with heterogeneous tasks to list the tasks of subordinate positions as well, particularly in light of the fact that the superior takes managerial responsibility.
- Personal tasks. Tasks that have to be performed personally and cannot be delegated are listed.

Something that applies generally to the development of tools for implementing structures is particularly important in job descriptions. A top-down approach should be taken wherever possible when writing them. The employee normally knows his tasks more precisely than his boss. Therefore, a job description should, if possible, be written in collaboration with the employee.

The job description is a tool designed for traditional forms of organization. If, instead, the process philosophy dominates in a company, individual jobs are no longer relevant and processes come to the fore. Hierarchical positioning is no longer so significant. In contrast, integration into the process structure gains in importance. Consequently, the job description is replaced by a process description. The description may contain the positioning of the process in the process organization, the tasks in the processes, interfaces and their coordination, and the performance requirements of the process. (Haid 1999, 117f.).

6.5 Forms of Organization

6.5.1 Introduction

The design of the structural organization shows how the mission derived from the business objective is structured. In the context of business development, a number of organizational adjustments have to be made, this is also known as the challenges of the organizational gap. Any change in the enterprise's strategy implies new areas of focus for the functional departments, product groups, or regional units, and demands an organizational adjustment. Activities have to be expanded and redesigned when, for example, customer acquisition is changed and different executives might need to report to a superior. If the new strategy cannot be converted into organizational measures, this is known as an organizational gap.

It becomes more difficult to adapt the organization to the strategy if the changes to which the enterprise is exposed show a steep increase. These problems are expressed primarily in the choice of organizational form that the enterprise selects over time to enable it to adapt to the changes.

A choice of various basic forms is available for the organizational division of work and connections between tasks (Figure 6.7). These forms of organization may be divided up into types of structure that strive for long-term, fixed anchoring. On the other hand, temporary forms are conceivable. Another important aspect is whether organizational forms are one-dimensional or multi-dimensional models. In one-dimensional organizational forms, one structuring criterion is crucial at each hierarchical level. Structuring criteria may be functions, products, and services, or regions and markets. In contrast, multi-dimensional organizational models take several key structuring criteria into account simultaneously. In principle, for example, two structuring criteria may be of equal importance to an enterprise. This multi-dimensionality is to be found in fixed organizational forms, but primarily in temporary project organizations.

The multi-project management approach of Cusumano/Nobeoka (1999), among others, demonstrates the various options. They show different forms of project organization for successful product development using examples from the automotive industry.

Corporate management is being offered an increasingly wide choice of organizational approaches and forms, and for optimum impact, those that provide ideal support for the enterprise's strategy should be selected. The different forms may show diverging effects on efficiency and effectiveness. There are also various approaches to proving this fact. (Thom/Wenger 2002, 103ff.).

To choose one example, Greiner's approach (1972) should be mentioned. According to his findings, age, quantitative scale criteria, and qualitative scale criteria play a role in logical order. Depending on the phase of the enterprise, different organizational forms can represent promising ways to master current crises. The organizational form should be adapted to the relevant situation, and the organizational gap should be closed.

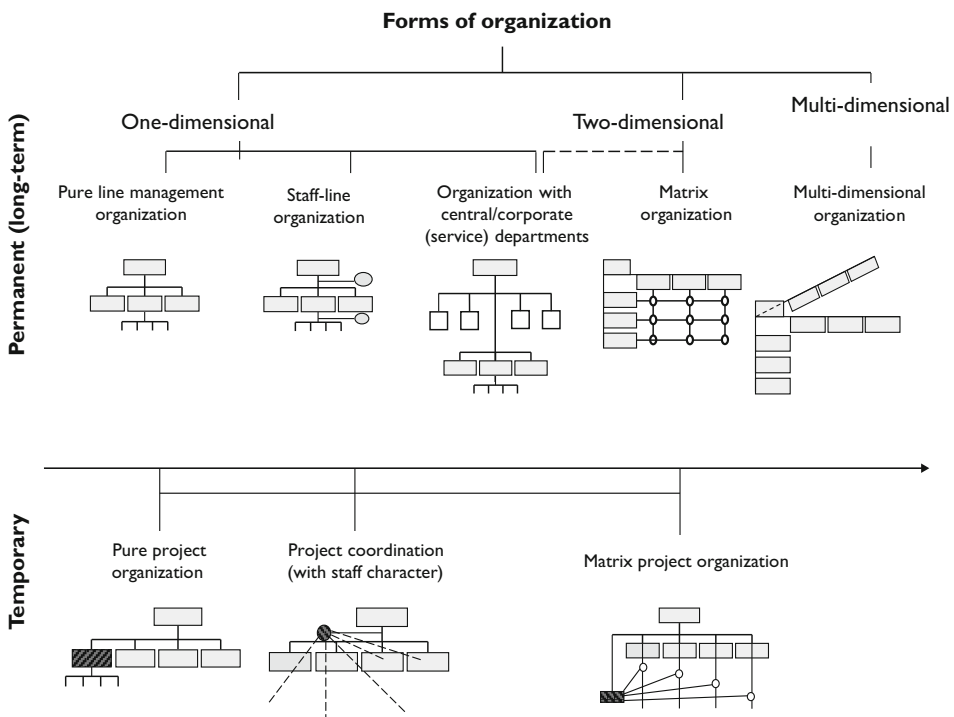


Figure 6.7 Overview of Different Forms of Organization

Organizational forms are a popular topic for discussion in research and business practice. This discussion has to be conducted on a differentiated basis and cannot come to any final conclusions as it is essential to discuss and consider the relevant organizational form from the point view of the specific situation. The underlying concept of any selected form is not right or wrong. Depending on the situation, advantages and disadvantages will be more strongly accentuated in every form and the effects will be different.

The appropriate structure depends on multiple factors, like the size of the company and the type of activity. Hence, the different perspectives on structures could be divided into small organizations, large organizations with short value chains, and large organizations with long value chains.

6.5.2 One-dimensional Concepts

Functional organization

The one-dimensional functional organizational form is geared towards an enterprise’s core areas of activity. Different functions are distinguished: research and development (R&D), purchasing, production, logistics, sales, administration, etc. First, this form reflects the logistical flow from the receipt of raw materials to the sale of the products. Second, it shows the order throughput from order acceptance in sales and order processing in production through the provision of resources (Bleicher 1991, 389).

The functional organization is the oldest form of organization and is now mainly encountered in small and mid-sized businesses. The coordination of functional jobs increases disproportionately with scale, which is why this form rarely occurs in large companies.

The functions can be divided into resource-based and production-based functions. Resource-based functions take care of procuring and administering resources for the production process. They are, therefore, only indirectly associated with actual production. Examples may be materials, human resources, finance, or plant and equipment. Production-based functions comprise the areas directly involved in the business transformation process, such as research and development, production, or sales/distribution.

Example

Apple’s function organization

To create innovation, Apple relies on functional organization, implemented in 1997 by Steve Jobs. Its functional organization accumulates expertise and experience with decision rights in a domain. The link between how Apple is organized and the type of innovation is obvious and is in line with Chandler’s philosophy “structure follows strategy”. It is evident that this type of organization requires a particular leadership model with deep expertise, immersion in details, and willingness to collaborate and debate (Podolny/Hansen 2024, 89ff.). ◀

Functional organizations mainly emerge when business conditions are stable and clear, specialization of tasks is the preferred approach (high division of work), the product line is homogeneous, and the majority of tasks are routine.

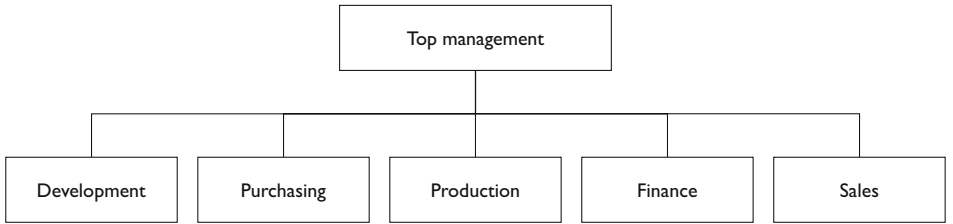


Figure 6.8 Function-based Organizational Chart

Key advantages of the functional organization:

- Simple, clear structures
- Maximum use of specialization effects
- Self-contained, clearly defined tasks and authorities and therefore easily controllable functional areas
- Functional subdivision according to professional training
- Internal communication and coordination in the different areas

Key disadvantages of the functional organization:

- A large number of interfaces and interdependencies, leading to considerable coordination problems
- Risk of parochialism
- Overload on top management; coordination tasks and problems (non-routine tasks) rise to the top (chimney effect)
- Overemphasis on specialization
- Restricted possibilities for human resources development (succession)
- Low motivating power due to individual tasks' lack of meaning

As the enterprise grows (by extending its product line, for example), the coordination problems increase, whereas the specialization advantages of the functional organization decline. If the environmental requirements increase at the same time (as market and competitive situations change), the functional organization is no longer sufficiently flexible. A switch to a divisional organization is advisable.

Divisional organization

The divisional organization is based on the core products or the objects of an enterprise. It can also be described as a one-dimensional object organization, business unit organization, or enterprise organization (Figure 6.9).

The creation of a divisional organization is led by the enterprise's differentiated product line. The product-specific activities for a heterogeneous product line are combined and split up into logical divisions. It should be noted that it is virtually impossible to decentralize all activities to the divisions.

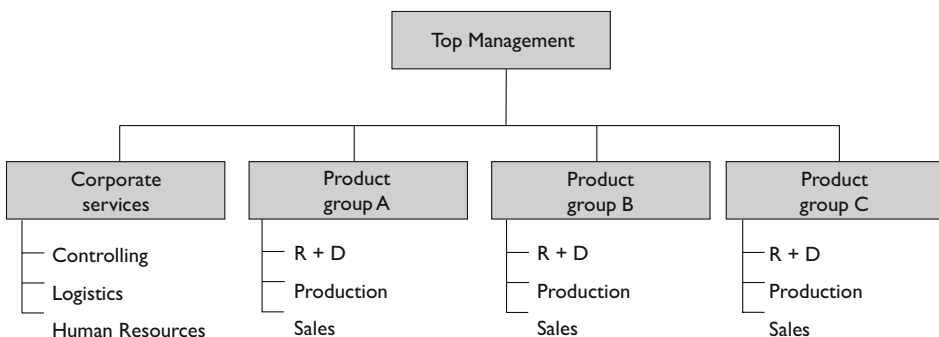


Figure 6.9 Divisional Organization by Product

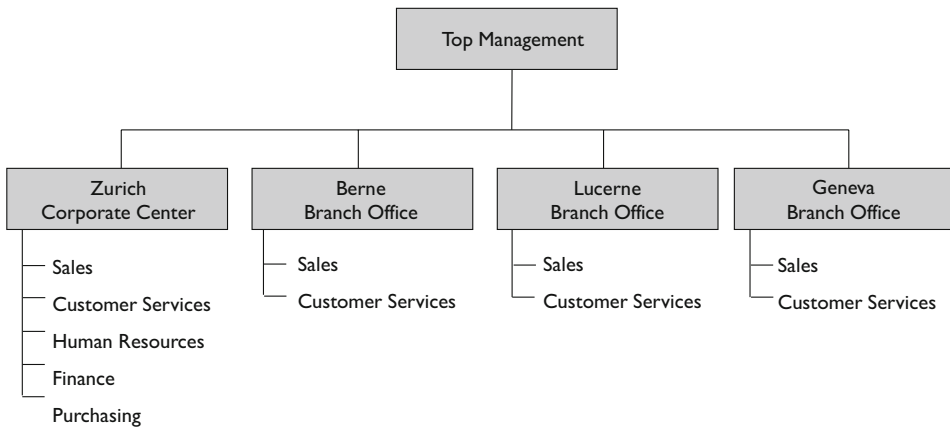


Figure 6.10 Divisional Organization by Region

Some administrative tasks, such as finance and accounting or human resources management, are performed centrally. This results in central departments (corporate services) being governed in different ways. In the 1960s and 1970s, these corporate departments increased hugely in size in traditional enterprises. In the last 20 years, however, attempts to decentralize administrative tasks have been more typically seen. The trend towards holding company structures has supported and stimulated this development since the 1980s. A divisional organization can be structured by product, customer, or market.

The product-based organizational form starts with a heterogeneous product line or heterogeneous customer structure. Therefore, it makes sense to aggregate individual activities into divisions. The costs and revenues of the individual divisions should be separated as far as possible. These divisions are relatively autonomous. They manage their specific tasks largely independently but still remain legally part of a larger system.

While in the product-based organizational form the different technologies and product characteristics resulted in the formation of a division, divisionalization by region or market is led by the distance from the markets and the heterogeneous customer structure. Regional market segmentation can, for example, be observed in retail businesses at the national level (Figure 6.10). However, regional concepts are also to be observed in large international companies when they create structures in their multi-dimensional organizational forms based on both products and markets.

The divisional form of organization displays different strengths and weaknesses, depending on the company-specific solution and hybrid form.

Key advantages of divisional organization may be:

- Top management is largely relieved of the burden of day-to-day business, and can therefore concentrate more on strategic issues
- Better coordination and decision-making within the divisions
- Holistic delegation of tasks, responsibility, and competence is easier

- Extensive entrepreneurial autonomy of divisional managers; greater motivation and more precise performance appraisal
- Small, reasonably easily managed organizational units — more flexible in the event of changes in the internal and external situation
- Wide range of possibilities of business development
- Rapid decisions and short communication paths
- Maximum use of division-specific know-how (production, market, environment)

Key disadvantages of divisional organization are:

- Risk of divisional parochialism and a short-term profit orientation
- More management jobs are needed
- Corporate functions needed (human resources, logistics, finance etc.)
- Certain tasks have to be duplicated (no synergy effects)
- Greater administrative effort (internal transfer prices, divisional income statements)

In practice, it is pretty rare to find pure divisional organizations; a variety of hybrid forms with different degrees of decentralization is more likely (Bleicher 1991, 537ff.). One form is the mixture of functions and divisions. Certain functions are centralized, such as research and development, the sales office, and corporate production engineering. Central R&D acts as a service department and coordinates activities. It organizes the capacities and resources to execute research and development projects and triggers projects depending on priority.

A further hybrid form has been observed in the course of the internationalization of companies: the mixture of divisions and regions. The business activities of the individual divisions may be very different and different degrees of centralization are therefore needed.

Locally oriented business units are mostly managed decentral in an international enterprise, in the hope of dealing more effectively with local conditions. Business units with international activities, in contrast, tend to be managed across regions. The level of centralization is normally increased so that investments in the regions, the product portfolio, and the value-added can be strategically coordinated. Production is carried out wholly or partly in the local business units. Nevertheless, strategic decisions have to be centrally coordinated.

In the extreme case of globally oriented business units, activities are coordinated globally and centrally. For example, a supplier to a global mass manufacturer may manage its entire purchasing policy centrally. The degree of centralization of the supplier follows that of the key customer or customers. The importance of global business units has risen faster than that of others in the last few years. In organizational practice, this results in difficult interface problems between the corporate center and the decentral regional units. The divisional organization is the organizational form of the second half of the 20th century. A wide variety of applications is to be found in very diverse branches of industry, such as the electrical industry, banking, or the chemical industry.

The divisional organization at ABB in the year 1998 was the consequence of a new strategy and divisions required the enterprise to concentrate on its core skills and to benefit from the advantages of global standardization of its structures and processes. Or the

change in Novartis’s organizational structure is a consequence of its new focus on Life Sciences. A number of areas were carved out, such as the specialty chemicals business units (textile dyes, chemicals, pigments, and polymers) and the construction chemicals area. Concentration on the Healthcare division (with four business areas: Pharma, Consumer Health, Ciba Vision, Generics) was pushed further with the sale of the Agribusiness division. Business units were formed worldwide for the Pharma and Consumer Health divisions, which were restructured in 2003 (Novartis 2006). business logic at ABB. The company became globally oriented.

Holding company organization

As diversification progressed, holding companies have increasingly been used in the restructuring of diversified enterprises from a divisional to a holding company structure. The divisions are independent units under independent management. The holding company is an enterprise that holds investments in several legally independent companies. It does not operate in the market itself and does not conduct any operational activities. This holding company, also known as a holding umbrella company, holds investments in various companies. Holding company structures can be subdivided into financial holding companies and management holding companies. In a financial holding company structure, the umbrella company performs no strategic management tasks in relation to the companies; it concentrates on managing the shares in the holdings and is responsible for an overall corporate perspective. This may lie in managing the holdings to optimally utilize synergy effects. Or the holding company performs administrative and control activities. The main difference in the management holding company structure is that the holding company does

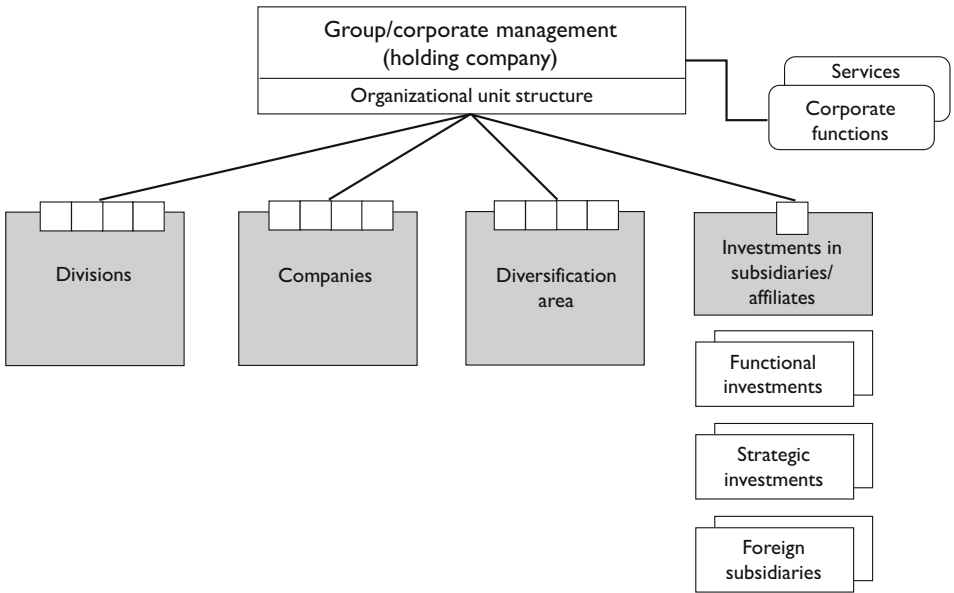


Figure 6.11 Holding Company Structure
Source: Based on Bleicher (1991), 638

carry out strategic management of the individual subsidiaries. It is therefore also known as a corporate holding company or strategic holding company. However, in contrast to the typical corporate group with its strong corporate center, the top management of the holding company performs operational and market-oriented activities.

The management holding company can therefore be regarded as a special form of the divisional organization, in which the divisions are legally independent and have a legal and organizational identity. A management holding company may be set up, on the one hand, when operational business units are made legally independent. The assets are transferred to existing or new subsidiaries and corporate management is transformed into a holding company. On the other hand, the assets can be transferred directly to the new holding company, with the managing director staying on and the ownership structure possibly being changed. The special character of the management holding company lies in the possibility of combining centralization and decentralization to optimum effect. Strategic management by the corporate top management is combined with the decentral elements arising from the subsidiaries' autonomy.

Example**Holding Sony Group Corporation**

Sony Group Corporation is one of the world's largest technology companies and manufacturers of consumer and professional electronic products, a video game console and video game publisher. It is also one of the world's largest music producers. Sony Group Corporation is the holding company of the Sony Group, which comprises Sony Corporation, Sony Semiconductor Solutions, Sony Entertainment, Sony Interactive Entertainment, Sony Financial Group, and Sony Creative Products, among others. Sony is listed on the Tokyo Stock Exchange and is the oldest Japanese company listed on the New York Stock Exchange. In 2021, it was ranked 88th on the Fortune Global 500 list. ◀

The centralization-based advantages of the management holding company are to be viewed as coordination, integration, and synergies. For example, centralization makes it possible to integrate areas such as financial management, technology management, and the management of the corporate culture. Of course, creating a uniform culture does not offer advantages only (for further information see Chapter 7 on corporate culture). Synergies may be realized in products and processes, for example, or procurement and sales-specific synergies can be realized between the subsidiaries.

The list of advantages of the management holding company through decentralization can be interpreted in various ways:

- Flexibility

The enterprise's value chain can quickly be adapted to those of market partners, as with the divisional organization. However, one key advantage lies in the fact that the purchase and sale of parts of the company can be affected quickly.

- Proximity to the market
The smaller, independent units conduct themselves more entrepreneurially and can perceive changes in the market better and respond more individually to changes.
- Ability and willingness to cooperate
The divisions' legal autonomy encourages the formation of alliances, and decisions can be taken faster. Possible alliance partners can be identified more quickly and negotiations conducted more efficiently. In return, the cooperation partner finds the contact easier to identify; it is smaller in size and easier to grasp. At the same time, the subsidiary has financial backing.
- Openness and transparency
The management holding company enables performance to be assigned to the individual subsidiaries and increases the possibility of valuing the company on the basis of its obligations when preparing its annual financial statements.
- Innovativeness
Innovativeness is promoted because the subsidiaries' independent initiative and responsibility are strengthened.

Simultaneous centralization also leads to certain advantages. These are to be seen in its financial power because large investment projects can be financed more easily through the in-house capital market. Coordination and integration advantages can be achieved in some areas by integrating financial or technology management, for example.

Of course, many disadvantages are also to be observed in the management holding company structure, the effect of which may vary depending on the quality of implementation.

- The distance from the legally independent divisions to strategic leadership can increase, and the problems of the subsidiaries may not be adequately understood.
- There can be a negative effect on overall efficiency and effectiveness if loss-making subsidiaries have to be subsidized.
- Efforts to achieve operational synergies between subsidiaries may lead to higher costs.
- In comparison with a strategy of cooperation, holding company structures are less strategically flexible.
- The demarcation of responsibilities between the management holding company and the subsidiaries may lead to power struggles between employees and their motivation.

6.5.3 Multi-dimensional Concepts

Matrix organization

Multidimensional organizational models are characterized by the fact that two (matrix organization) or more (tensor organization) structuring criteria are integrated at the same time on the same hierarchical level. The increased use of project management, in particular, led to enterprises being able to embed a further dimension organizationally with relative ease (Cusumano/ Nobeoka, 1999).

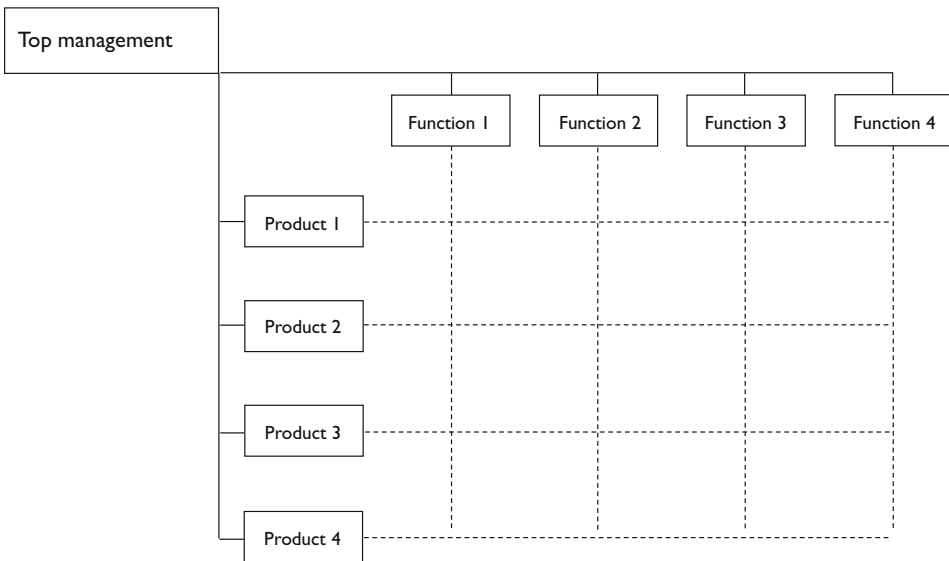


Figure 6.12 Matrix Organization

The principle of the matrix organization is based on a combination of two entrepreneurial dimensions of equal rank. The matrix organization comes into its own when two dimensions (functions, products, markets) are classed as equally important to the achievement of the business objectives. This super-imposition of two dimensions is intended to facilitate specialists' access to the coordinating jobs (Figure 6.12).

One central purpose of the matrix organization is to improve collaboration between the individual jobs. Some rules are needed so that this objective can actually be achieved. Fundamentally, the aim is to define the responsibilities of the two dimensions so that there are no overlaps or gaps. Power-sharing is consequently a basic principle of the matrix structure.

Example

Swiss Re

In the classic matrix, regional managers are in competition with global product managers. At the Swiss Re reinsurance company, expanding the matrix had the following consequences: when a Swiss Re salesman met an insurance client, the latter demanded a certain product at a specific price. After the reorganization, the Swiss Re financial adviser had to make contact with the product specialists. They had to reach an agreement together as to whether the reinsurance company could accept the risk at a price agreed with the client. Conversely, Swiss Re product specialists had to clarify employees who dealt directly with clients whether there was a need for a planned product in the market. ◀

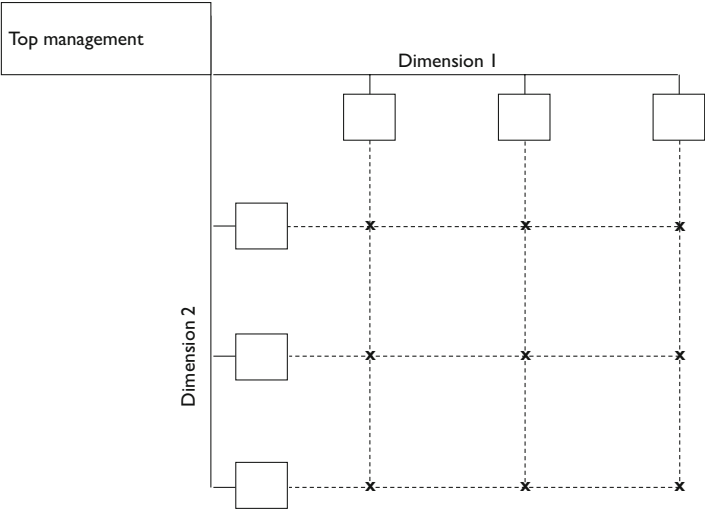


Figure 6.13 Matrix Organization with no Organizational Unit at the Intersection
Source: Bleicher (1991), 569

A matrix organization is characterized by the interface between two dimensions. This interface may take different forms (Bleicher, 1991, 568ff.). The first option is the shared problem-solving approach. Instead of a responsible organizational unit at the intersection of the two dimensions, there is a problem that has to be solved together. Those involved solve the problems arising without formality and automatically (Figure 6.13).

Problem-specific temporary work groups or task-specific committees represent a second option as forms of collaboration. The representatives of the different dimensions meet in the matrix team. The problem is analyzed and discussed from various points of view and a solution is agreed on that is supported by all concerned.

In the third form, organizational units are positioned at the interface of various dimensions. The organizational units bear responsibility and are measured by the problem solution. Consequently, three components have to be distinguished for a structure created in this way: matrix management, matrix jobs, and the interfaces (Figure 6.14).

The matrix is used primarily in larger enterprises (at least 250 employees) with several different product lines and two relevant entrepreneurial dimensions.

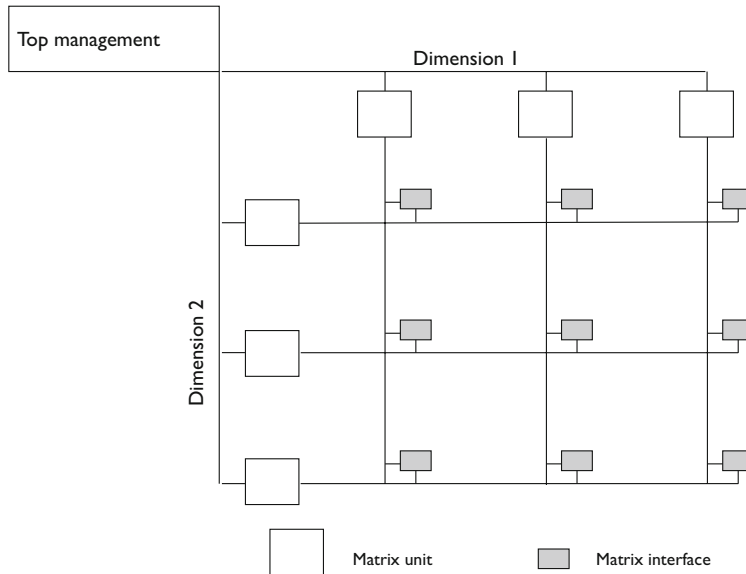


Figure 6.14 Matrix Organization with an Organizational Unit at the Intersection

Source: Bleicher (1991), 571

Key advantages of the matrix organization:

- Internal communication is improved by direct collaboration between subject specialists and coordinators.
- More efficient deployment of specialists.
- Teamwork is encouraged by constant interactions.
- Interdisciplinary collaboration promotes innovativeness.
- An effective matrix function increases flexibility and dynamics.
- Participative solution-finding improves the working atmosphere.
- The burden on top management is eased by specialist management functions.
- Flexible adaptation of structures to market and competitive requirements.
- Wide range of possibilities of human resources development.

Key disadvantages of the matrix organization:

- Employees' reporting to two managers can lead to a conflict of authority.
- Employees may provoke conflicts of authority.
- Different mentalities in the two entrepreneurial dimensions may lead to problems.
- The requirements on employees (flexibility, entrepreneurship, teamwork) are higher than in one-dimensional organizational forms.
- High demands on information processing.
- Tendency to bureaucratization due to complex competence and communication rules.
- Great need for qualified managers.

Example

Business Area Manager and Regional Managers

The Business Area Manager holds global responsibility. He determines strategy and the development and implementation of product innovations and defines the product lines for individual operations. The regional dimension of the international matrix organization is demonstrated by three regional managers for the key output markets in Europe, Asia and America. At the intersection of the matrix are the enterprise's local units and profit centers. The organizationally embedded interfaces were rigorously aligned with the local situation and environmental conditions. Consequently, the enterprise was able to operate locally and globally at the same time. The global coordination and exploitation of cross-border synergies were carried out through the two matrix dimensions. ◀

Matrix Product Management

“Unless you are absolutely convinced that there is no alternative organizational form, you should steer well away from the matrix structure.”

Davis/Lawrence

The product management approach was developed to improve the enterprise's adaptability to market and competitive conditions. Product management (PM) is used mainly where the enterprise has a varied and heterogeneous product line that demands product-based coordination. The markets addressed are also characterized by high complexity and dynamics. The PM should increase flexibility and action capabilities regarding the various markets.

Product management overlays the actual organizational form (e.g., functional organization) with a secondary, product-based structure. This matrix product management is one possible organizational form for anchoring the product manager in place. Further options would be staff-product management, line-product management, and the product committee.

In matrix product management, the product manager receives formal authority over the specialist jobs. This means that the well-known features of the matrix organization are transferred to the PM.

The product manager's tasks are wide-ranging and varied. His activities can be divided roughly into five functions: analysis, innovation, planning, coordination and control.

Analysis: The analysis function is one of product management's core activities. Market data, ratios, weaknesses, strengths, etc., must be analyzed. Without this, sound decisions cannot be made or implemented by the line departments.

Innovation. PM must constantly strive to further develop the product in its care and seek new opportunities for its application. Above all, PM also has a great responsibility in marketing. Concrete proposals on new marketing initiatives are expected to be implemented as appropriate by a large group of people.

Planning. One of PM's most important planning tasks is sales planning. This includes determining the target group, making a concrete definition of the offering, budget planning, sales promotion, pricing etc.

Coordination. PM coordinates all product-specific activities in an enterprise. These include production planning and processes, corporate identity and brand management, coordination of promotional measures, sales force supervision, and continuous progress control.

Control, Naturally, the measures taken must also be checked for correctness and effectiveness. This analysis of the plan/actual situation provides the basis for action plans in the next phase.

Using PM well requires certain prerequisites to be in place. The enterprise must be large enough and should have several heterogeneous product lines available that are aimed at different customer groups. A strong customer market supports the formation of PM.

However, PM is not necessarily the correct form of organization for an enterprise with a fairly homogeneous offering, under stable and clear market conditions and in strongly hierarchical (authoritarian) enterprises. Key advantages of the product management organization:

- Better implementation of sub-strategies
- Taking the burden of coordination tasks away from top management
- Increased opportunities for innovation
- Key disadvantages of the product management organization:
- Product management as a second entrepreneurial dimension mainly creates competence problems.
- The specialist and personal demands on the product manager are enormous.
- Multi-dimensional tensor organization

When an enterprise has to take a minimum of three dimensions into account simultaneously, this is called a tensor organization. Normally, the functional corporate departments, products and regions are included simultaneously as dimensions. The integration of a project organization would be conceivable as a fourth dimension.

Tensor organizations are used mainly in business sectors where highly complex customized solutions have to be marketed. The enterprise needs a variety of top-quality human and financial resources for the solutions, which are worked out in individual projects. Applications are to be found, for example, in information technology, global management consultancy, or the chemical industry.

Example**BASF**

BASF AG had a three-dimensional tensor structure. Responsibilities in the Board of Executive Directors were divided into eight different areas. The second level of management was simultaneously structured by the dimensions of product (operating divisions), region (regional divisions), and function (other divisions). Decisions were taken jointly by the product and functional managers and by the regional managers. In cases of conflict, the area with operational responsibility made the decision. That way, product responsibilities were intended to be harmonized optimally with regional and functional responsibilities. ◀

6.6 Process Management

6.6.1 Interaction of Structural and Procedural Organization

The interaction of structural organization and procedural organization has long been regarded as a key quality for a successful enterprise. From the point of view of system theory, the structural and procedural organization are the result of structuring elements and relationships. The structural organization, with the organizational principles, tools, and forms, reveals the bare bones of an enterprise's potential. The tasks based on the corporate objectives must be analyzed and coordinated into jobs. Here, a pattern of relationships within the division of work becomes visible in the structural organization (Figure 6.15).

Work relationships enter into this pattern. These represent the input-output connections and lead to an enterprise's process structure. The work elements from the structural organization are analyzed and coordinated in spatial, temporal and human resources terms. The human resources, spatial, and temporal synthesis of the work leads to the procedural organization or, to use a synonym, the process organization of an enterprise. The quality of the processes is important today because companies' performance capability increasingly depends on the fast and cost-efficient execution of business processes. This is undoubtedly the core reason why process orientation is gaining more and more importance. When the process organization is implemented by corporate management, this is known as process management. Process management is understood to include all planning, organizational, and control activities for the targeted control of an enterprise's value chain in relation to the objectives of cost, time, quality, innovativeness, and customer satisfaction (Gaitanides, 1983, Scholz, 2000).

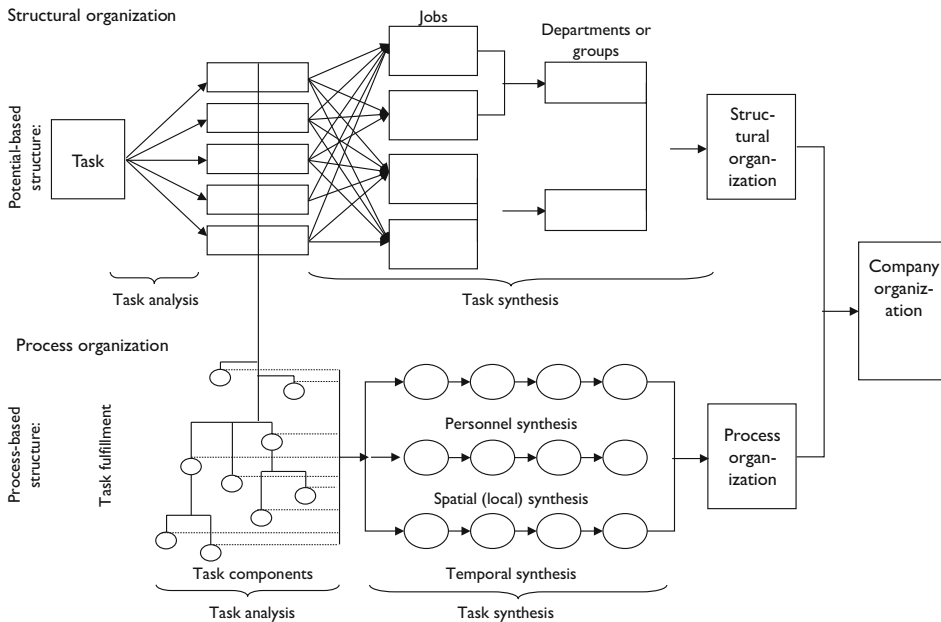


Figure 6.15 Organizational Design

Source: Bleicher (1991)

The importance of an enterprise's process competence only began to be discussed by a broader public in the 1990s. In the context of business process reengineering, the main thrust in the debate on the optimum organizational structure has moved more and more toward organizational design (Hammer/Champy, 1995; Hammer, 1997). More and more people support the view that cross-functional processes are not sufficiently discussed in traditional organizational approaches. The process organization, it is thought, is neglected and often inadequately squeezed into the existing structural organization.

The processes are not satisfactorily analyzed and coordinated in traditional functional organizations and are, so to speak, "tacked on" to fill gaps. This does not necessarily present a problem in small companies because the employees know each other and work together in the processes. In larger enterprises, however, with their departmental managers, it can lead to a silo organization with the attributes "big, fat, and windowless" (Osterloh/Frost, 2003, 28f.). Functional thinking leads to blockages because of the lack of internal communication between departments. Information is still exchanged primarily through the reporting system. In addition, a "chimney effect" results, i.e. the cross-functional problems are passed on to top management. Top management draws the coordination tasks upwards like a chimney, and there is a strong probability that it will become overburdened with time. Furthermore, the traditional concepts are often combined with matrix approaches and have flexible project teams added to them. This, however, often leads to complex structures that are too cumbersome and virtually unmanageable.

Many business tasks (order processing, bid generation, product development etc.) have to be organized holistically. These tasks are, however, mostly divided into individual sub-steps by a highly hierarchical and functional structural organization and have to be re-co-ordinated and harmonized with considerable effort and some difficulty. The consequence is a variety of interfaces and the enterprise consciously or unconsciously forms operational islands because of the functional barriers and hierarchical thinking and action.

Problems arise in connection with poor transfer of information, departmental thinking, or opaque operating procedures. When added together, these problems sometimes lead to considerable efficiency losses for the enterprise.

Because of these flaws, it would be better not to place structural organization in the foreground, but to concentrate instead on process organization. Processes do not have to follow the structural organization: the structural organization has to follow the processes. The traditional principles should be reversed and business processes should be regarded as the organizational structuring feature. Concentration on the processes implies concepts such as “barrier-free functions and hierarchies” and the “boundaryless company”. The process focus designs value creation in such a way that the independent processes are oriented towards the customer with the objective of delivering goods and services to the customer without interfaces.

The visions and objectives of a process-focused enterprise increase the need to ensure a uniform understanding of processes. As a result, processes should be analyzed, conceptualized, and implemented in day-to-day business. Yet, what is a process? What features characterize a process?

6.6.2 Process Description

Constituent features of processes

Processes may be defined as procedures with self-contained content and a clearly defined input and output. The difference between the value of the output and the input can be described as an increase in value (value added). A number of features characterize the process as a collection of activities for which certain inputs are needed and whose output possesses value to the customer.

First, a process contains a certain task and is goal oriented. The desired end state (goal) of the process is defined at the outset. The process-specific goals should also be determined in advance, such as throughput time, process costs or quality.

Second, the process is triggered by an external event (customer order) or a time-related event (deadline). The end of the process may represent a trigger event for a subsequent process. A process always transforms input into output and may occur in either tangible or intangible form.

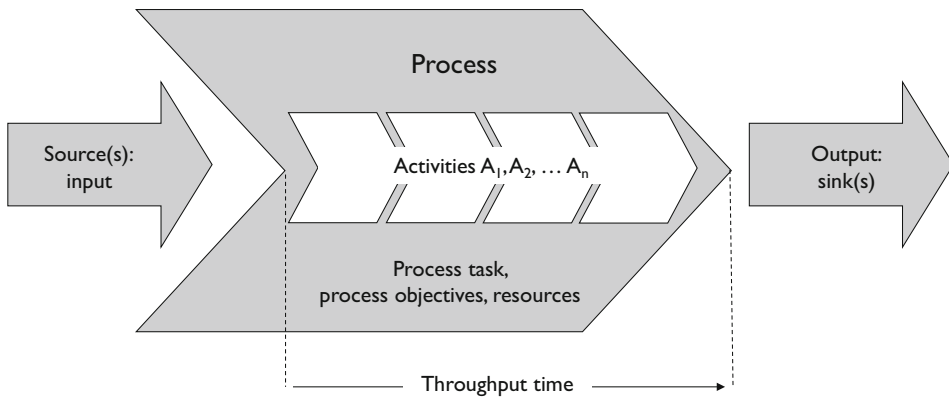


Figure 6.16 Process Features

Furthermore, a process consists of activities or functions. These are related in content and purpose-oriented. Process activities may be organized either sequentially or in parallel.

The fourth feature relates to the resources for processes, with people forming the basic element in process execution. Physical resources, information, and methods are available to the people. In addition to human performance capability, processes are strongly characterized by information and its transformation into knowledge relevant to the enterprise [Figure 6.16](#). Adequate information and communication relationships are needed to link activities to processes and processes to each other. These relationships are influenced by, among other things, the methods applied in the enterprise. For example, integrated software applications were used increasingly in the 1990s in the context of data processing.

The last important feature relates to the process throughput time, which is the span of time from the start of a process (input of a source) to the end (complete and flawless output). The described process elements are often presented graphically in enterprises in addition to being described in words. Graphic representation reduces reality. However, it allows for an overview within a short space of time. Standardized symbols from standards institutions (including ISO standards) and software houses are used here.

Value chain

One way of presenting an enterprise's processes is the value chain, which was already outlined in Chapter 5. Building on the input-output model, the total process within an enterprise is analyzed in value chains (Porter, 1992, 90 ff.).

Each value chain is composed of value-adding activities, with a distinction drawn between primary and secondary ones. The model shows at a high level of abstraction just how subtasks are related. However, the exchange relationships between the value-adding activities are ignored. The value chain as a logical model is helpful for a very wide variety of tasks. For example, Porter (2001) published the requirements of the Internet and its impact on the value chain.

Process types at the level of the total enterprise

A very wide variety of process types exists in the literature and in business practice. Depending on which criterion is given priority in the process analysis, different classifications arise (Griese/Sieber, 1999, 73). An analysis based on the process's object, the nature of its activity, and its relationship to the market may be possible lead criteria for the uniform understanding of the process types in an enterprise.

If the processes are differentiated by object, a distinction may be made between tangible or intangible processes. The processing of physically existing materials (production) is described as a tangible business process, while the exchange and processing of information and tangible data media is known as an information process.

For analysis, the nature of the activity, production processes, and management processes are defined. Production processes aim to produce intangible or tangible output. They are known as direct processes if the output is intended directly for external customers. Indirect processes are, accordingly, those for internal customers. In contrast, management processes plan and control the enterprise.

The view based on market relationships is largely congruent with differentiation by the nature of the activity. Production processes are distinguished as primary processes (external customer processes), secondary processes (internal production processes), and innovation processes. Special mention should be made of innovation processes. These can, for example, comprise product development, market development, and organizational innovation.

These different criteria, combined with different process descriptions, result in the following three types: management processes, business processes, and support processes.

Management processes are concerned with the design and control of an enterprise. The entrepreneurial management work is needed for the business processes, and a support process is carried out in the management processes. The management processes build on the management functions of organization, planning, control, and human resources management. The main purpose of an enterprise is demonstrated in the business processes. This is where an enterprise's market-based activities are carried out, with the goal of creating value-added based on value to the customer. The conceptual orientation model is formed by the value chain, which shows, among other things, the firm's "primary activities" (Porter, 1992, 66f).

Business processes can be divided up into:

- Customer processes,
- Production processes and
- Innovation processes.

Customers are the beginning and end of the customer processes. These processes have the goal of satisfying customers in the long term and creating a value to the customer. The customer process comprises brand management, customer acquisition, and customer retention. The production processes are normally in the foreground when the process view is taken. The starting point is input materials and services, which are transformed into goods and services and marketed on the output market.

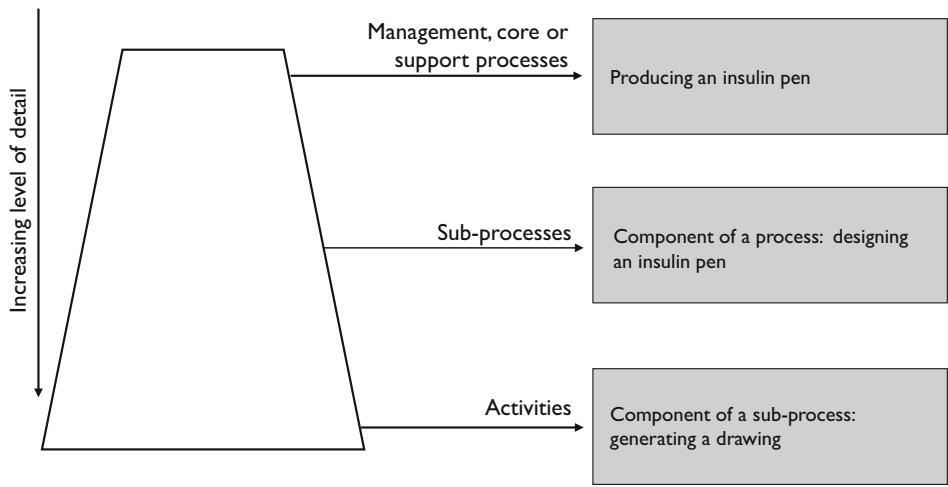


Figure 6.17 Process Hierarchy in a Medtech Company

The innovation processes are geared towards the process of ideas generation, development, and design engineering for the purpose of creating new goods and services. They are based on needs (“market pull”) on the one hand and business ideas (“market push”) on the other.

Support processes, in contrast, deliver little cash value to the customer, and their value has little competitive differentiation. The support processes are needed to enable the business processes to be executed efficiently and effectively. The support processes may vary widely depending on the organization’s philosophy (Dutta/Manzoni, 1999, 36ff). However, first and foremost they supply the business processes, such as human resources, infrastructure legal affairs, communication, and IT, with financial data, risk data, and operating data. Support processes are also often known as supply areas and are actually cross-functional units or functions.

The variety of process types used in literature and business practice makes transparency difficult. However, it should be mentioned here that the process terminology used particularly in business practice is neither right nor wrong, but only useful or not useful — for the process orientation of the enterprise in question.

The management processes, business processes, and support processes are positioned on the level of the total enterprise and form the starting point of an enterprise’s process hierarchy, which is broken down according to its level of detail (Figure 6.17). The management, business, or support processes are subsequently broken down into detailed sub-processes. For example, to maintain process quality, a business process can be split into three subprocesses and responsibility can be assigned to a team. In a subsequent step, these sub-processes are broken down into activities and recorded with graphic tools. Consequently, the processes are made clear on the basis of the process documentation, and new or rotating employees, for example, can be familiarized with their work on a uniform basis. The high effort required should undoubtedly be mentioned as a downside, particularly when the activities are also documented meticulously.

6.6.3 Process Management Typologies

As enterprises have become process-oriented, various process management typologies have developed over the years that emphasize either process management methods or ideal types. For example, improvements in sub-areas of an organization may be the central focus or approaches to dealing with specific problems may be developed. An overview should mention the organization-based approaches (including Gaitanides, 1983), the process views (including Scheer, 1988), and the process improvement concepts (including Harrington, 1991).

On the other hand, there are methods for radical process improvements (Hammer/Champy, 1993) and concepts that emphasize the link with corporate strategy (including Osterloh/Frost, 2003).

The organization-theory approaches strive for process organization to be robustly integrated into the structural organization. The focus is on process analysis within the structural organization (Gaitanides, 1983, 64ff.). Processes with self-contained content are identified and described using methods and procedures. The identified processes and their tasks are distributed across the organization, and an attempt is made to coordinate them. This approach makes it possible to define the structures of the processes and the number of jobs.

The second type, system architecture and process modeling, is based on linking process management closely with information technology. Process management is understood as the basis for the implementation of the software. To make process management serviceable as a prerequisite, processes are modeled and integrated into software architectures (Becker et al., 2000, 32f.). The various techniques for describing and simulating business processes have become a fixed process management component. The formation of the link between IT and process management was undoubtedly an essential step for an extended view of process management. However, process management cannot simply be reduced to this point of view.

The third type, the continuous improvement process (CIP), focuses on shaping processes utilizing a large number of small steps. The sources of the approach are traditional to be found in Japan (Shingo, 1986; Taguchi/Clausing, 1990). Total Quality Management (TQM) adopted these ideas in its first phase and developed them further according to Western models. The concepts are based on employee involvement, continuity of improvement progress, and customer orientation. In addition, the importance of process control was discussed more for the first time. Consequently, Total Quality Management is seen as a

According to ISO 8042, TQM is a management method based on the involvement of all the members of an organization, which places quality at the center of attention and is aimed at long-term business success through customer satisfaction, to the benefit of the organization's members and of society. In short, TQM means continuous improvement.

Continuous improvement can, however, have the disadvantage that the steps are too small and efficiency improvements are inadequate. Innovations are needed, and development leaps are possible depending on the enterprise's position and are in line with corporate strategy. Hammer and Champy (1995) developed a radical process redesign in the 1990s. The concept of business process reengineering that they developed strives for step changes in efficiency.

As the name suggests, the fifth type, strategic business process management, has a strategic focus. Process management and strategy have to be explicitly coordinated (Osterloh/Frost, 2003). Process management must be based on the enterprise's core competencies, and therefore, above-average importance is attached to the company's core processes.

6.6.4 Business Process Reengineering

The basic idea of business reengineering is not derived from one uniform theoretical concept but is a mixture of well-known methods, practical observations, and experiments. However, the question continually arises concerning the impact the concept has had in practice (Maier, 1997, 9). Business process reengineering is a radical concept and aims to achieve a marked improvement in business performance through the fundamental redesign of business processes. Business reengineering goes further than business process improvement; it is also associated with higher risks. The continuous improvement process aims at incremental changes that are carried out in small, manageable, and less risky steps. Both concepts share the idea that business processes must be constantly restructured because improvements are always possible.

Business process reengineering aims simultaneously for quality and service improvements, cost reduction, and time-savings. Its aims are always the simultaneous achievement of efficiency and effectiveness in the enterprise and the vision of "quantum leaps". The quantum leaps are to be achieved through the optimum deployment of resources, strong IT support, interdisciplinary working and the elimination of non-value-adding activities (Hammer/Champy 1995, 48ff.).

Business process reengineering is characterized by the following features:

- **Process orientation:** The enterprise concentrates on total processes that extend beyond organizational boundaries.
- **Aspiration — radical changes:** Radical means establishing fundamental changes in the enterprise. The concern is not to optimize existing processes but to completely re-think structures and completely redesign processes.
- **Break with tradition:** The enterprise breaks with traditional principles such as specialization and with familiar temporal and sequential processes.
- **Creative use of information technology:** The enterprise uses the process design possibilities offered by new information technologies.

The realization of a business engineering approach depends on the interaction of three ideas: process, triage, and IT networking.

- **Process idea:** The 90° Organizational Shift, core and support process, process team, and process owner
- **Triage idea:** Segmentation by function, complexity or customer group
- **IT networking:** E-mail, decentral data access, simultaneous, paperless data processing

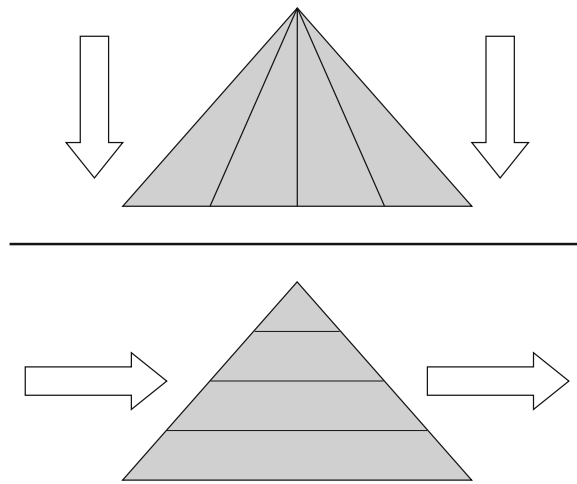


Figure 6.18 The 90° Organizational Shift

Source: Osterloh/Frost, (2003), 30

Process orientation is partly expressed in business reengineering by perspective changing because a horizontal process orientation is implemented rather than a vertical, hierarchical structure. This is expressed in a 90° shift for the organization (Figure 6.18).

An enterprise should see itself as a bundle of business processes that creates processes from the supplier to the customer without interfaces (all-round customer processing). Such a transformation in an enterprise will inevitably spark a revolution. The aim is to create seamless, universal processes as far as possible from the supplier to the customer, i.e., without any interfaces. The difference between the conventional and process-based view lies in the fact that with the process orientation, the fulfillment of customer orders is the sole focus. Conventional departmental thinking (sales — shipping — customer services) no longer exists.

There is only one person responsible for each process (process owner), and depending on the scope of the work, responsibility may also be taken by a process team that is self-coordinating by mutual consultation. As a result, hierarchical levels are eliminated, and at the same time, employees receive decision-making powers that are needed in the context of their own process to satisfy customers' wishes.

The result of all-round customer processing is ultimately an improvement in:

- Coordination (fewer interfaces — fewer sources of errors)
- Motivation (independent working and more responsibility for employees)

The triage idea segments processes internally into process variants or process sections.

Different types of segmentation are possible:

- Functional or modular segmentation
- Differentiating processes according to their complexity
- Segmentation by customer group

The principles of functional segmentation of the order processing process correspond to those of traditional product management. Uniform responsibility for the entire order processing process exists, but within this the conventional division of work by function prevails. A further possibility consists of connecting the horizontal processes additionally with a hierarchical, vertical structure in segmentation by complexity. Based on whether they address problems or are routine this approach divides processes into complex cases, moderately difficult cases or purely routine cases. The aim of this triple structure is to be able to state the “one best way for each given situation” for each process variant. As a result, the idea of all-round customer processing is rigorously adhered to and complex exceptional arrangements avoided, since only cases with the same level of routine are processed in each process variant. However, two disadvantages of this type of segmentation have to be taken into account:

- Activities with low scope for action are separated out (job enlargement, but no job enrichment).
- The complexity of an activity cannot always be defined in advance, and incorrect classification results in major losses in terms of time.

Segmentation by customer group is similar to key account management, but goes further. Key account management is a form of marketing organization in which an account manager or team of account managers is responsible for looking after a specific group of customers (accounts). However, the key account managers are not process owners, but have to coordinate constantly with the functional or product managers; in other words, the old interfaces remain in place. As with key account management, the advantage of segmentation by customer group lies in the consistent customer orientation (the principle of one face to the customer). Interfaces may also be eliminated if processes are structured according to customer groups. One disadvantage is that duplications may arise and consistency can be lost; i.e. different solutions are developed for the same customer problems.

In addition to the process idea and the triage idea, information networking is essential to the development of a business reengineering approach. The use of modern information technologies leads to possibilities of automation and new application options such as paperless, simultaneous information processing, electronic data highways, or decentral data access. The new IT applications have driven business reengineering forward. Paper-based information transfer soon reaches its limits in terms of access, processing, and dissemination.

New information technologies were initially used only to make existing processes faster and cheaper rather than to fundamentally rethink these processes. This is a leverage point of business reengineering: It not only automates processes by the use of modern information technology but also redesigns them. The use of information technology has led to innovations both between and within enterprises. For example, the transaction costs of inter-organizational relationships between an enterprise and its suppliers can be reduced materially, while inter-functional relationships within an enterprise can be made faster and less spatially dependent.

Example**ING Bank Adopting Agile**

In 2014, ING started to rethink its operations due to the emergence of mobile banking. It took inspiration from Amazon, Spotify, Google, Netflix, and Zappos, where agile methods demonstrated improved customer orientation and employee engagement. An internal study showed that bureaucracy, silos, and risk awareness were cultural problems. They decided to organize the 3500 employees in Amsterdam in teams of up to nine people with end-to-end customer responsibility, so-called squads. The self-managed squads work according to agile principles like frequent user feedback or daily progress updates. These squads were clustered into different tribes around customers' needs with the philosophy to keep it fluid. Essential ingredients were the decision that ING shifted power from the top and the right balance of oversight and autonomy for the employees. Eighteen months later, employee engagement was up, ING's Net Promoter Score rose, and its cost-to-income ratio dropped. (Birkingshaw 2018, 40). ◀

Business reengineering, therefore, requires special tools that can be implemented in IT solutions so that the processes to be fundamentally redesigned can be brought to the surface and the implementation processes initiated. Business reengineering demands horizontal cost recording if it is to be successfully implemented. Process cost accounting (ABC costing) systematically carries the process-based principles into the accounting system. The process costs are captured horizontally along the business processes. In particular, the administrative and service functions are recorded according to their contribution to the relevant business processes. The basis for this is the price to the customer less the profit margin. The corresponding cost targets are agreed upon with the heads of the enterprise's functions and regional entities, and suppliers. Process cost accounting is associated with the target-costing tool, which helps to reveal non-cost-efficient processes and identify performance capabilities.

6.6.5 Strategic Business Process Management

Core competencies and core processes

To tap the full potential of business reengineering, an enterprise must change its structures permanently. Comprehensive process management can then be put in place by anchoring the ideas of processes, triage, and information networking throughout the enterprise, not just in parts of it. The total enterprise must be mapped out, and the crucial element — the core processes — must be analyzed and designed (Osterloh/Frost, 2003). In addition to Porter's value chain (1992), business processes can also be represented as an expression of specific competence or "core competence" (Prahalad/Hamel, 1990). The core competencies make the process and the output unique. The core process philosophy clearly shows how strategic considerations are embedded in organizational design.

The core competencies form the basis of an enterprise's competitive advantage and are long-term and transferable. An enterprise's particular combination of resources and skills is used to generate competitive advantages. New products and services can be built up, and/or

new markets can be established. However, core competencies are not just short-term advantages but are always sustainable to a certain degree. They are longer-lived than products. The more complex the specific resources and skills are to imitate, the more sustainable an advantage may be. A core competence's crucial attribute is the possibility of how the competencies can be transferred to products, services, regions, and market segments. Transferring central resources and skills enables the enterprise to be proactive and innovative. Building on the core competencies should allow core processes to deliver the highest cash-equivalent value to the customer, and the customer has to perceive the value as unique compared with that of competitors (Krüger/Homp, 1997, 27). Core processes comprise an enterprise's competitive advantage and combine connected activities, decisions, information, and materials flows. They systematically focus on the critical strategic factors of the enterprise. The selection of core processes should be confined to a small number of clearly definable processes that meet the following criteria (Osterloh/Frost 2003, 34):

- **Perceptible value to the customer:** The processes have to create a perceptible value for customers, which they are prepared to pay for.
- **Enterprise-specific:** The processes have to be unique through an enterprise-specific use of resources.
- **Inimitable:** The core process must not be easy to imitate, or it can be copied by competitors, and the competitive advantage will decline. In the best case, the enterprise can uniquely combine unique resources.
- **Non-substitutable:** It should not be possible to replace the processes with alternative solutions. This feature is hard to maintain because new technologies often drive previous ones out. Therefore, a core process has to be constantly reviewed and, if appropriate, adapted to new technologies.
- Processes that meet these criteria represent the basis of sustainable competitive advantages. They should never be outsourced. The question arises as to whether processes that support the core ones should be executed within an enterprise or entrusted to an external partner.

These support processes should be managed separately for two reasons. On the one hand, the core processes become more manageable, and the core process chains become leaner. The customer only has to deal with one single process team ("one-face-to-the-customer" principle). The support processes can, therefore, also be assigned to individual teams or outsourced. On the other hand, the support processes can be benchmarked and compared with the performance of the "best" competitor.

In summary, it can be said that core processes are value-adding processes:

- They are of strategic importance.
- They lie horizontal to the traditional, vertical departments.
- They extend from the interfaces with suppliers to the customers.

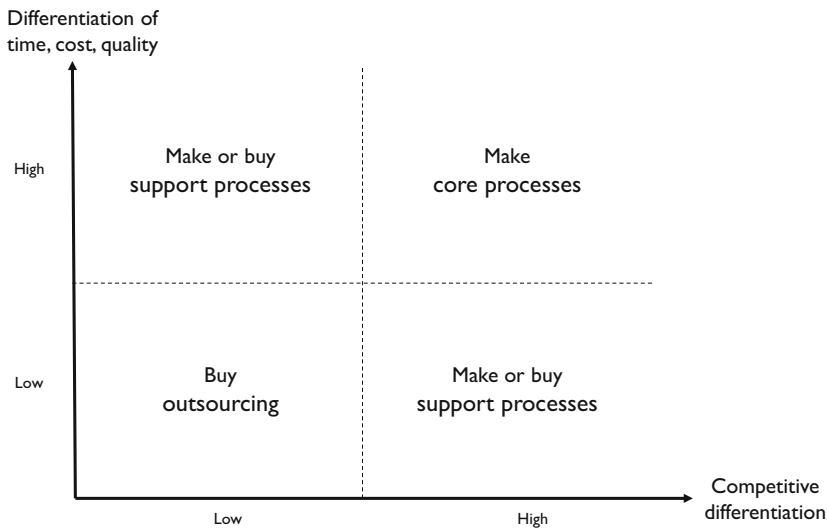


Figure 6.19 Outsourcing Decision

Source: Osterloh/Frost, 2003, 216

Example

Reebok

Reebok International Ltd. 1979, founded in 1979, is a company operating in the field of sports footwear and sports apparel. It was acquired in the summer of 2005 by sports goods manufacturer Adidas-Salomon (Adidas group 2005). Prior to the takeover by Adidas-Salomon, Reebok itself had made a wide variety of acquisitions. Those worth mentioning include Rockport (1986), a manufacturer of leisure and hiking footwear, and Ralph Lauren (1993). Reebok pursues a strategy of outsourcing production to other companies all over the world. Reebok's value chain is rounded off by 40 footwear factories in eight different countries, 600 apparel manufacturers in 29 countries, 450 suppliers of raw materials, 27 freight forwarders (for transportation by sea, road, rail, and air), and 34 customs-house brokers.

An Internet-supported application enables Reebok's data exchange with partners, their integration, and enterprise-wide resource planning. More than 5,000 orders pass through the value chain every month. The means of communication are fax, mail courier, on-site visits, electronic data exchange, and in-house data transfer (Jeannot/Mc Cann 2001, 219f.). ◀

The enterprise as a process organization

According to Osterloh/Frost (2003), the ideal type of process organization is characterized by the organizational elements in [Figure 6.20](#), which include the core processes, support processes, and corporate departments with specific functional competencies, which are integrated into the management processes. In this case, the corporate departments perform the function of service departments.

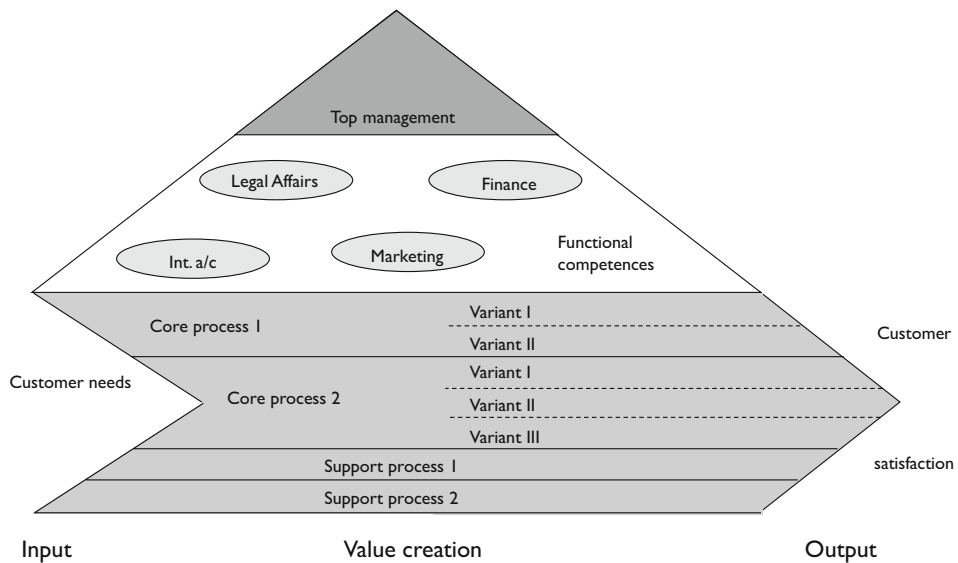


Figure 6.20 Enterprise as a Process Organization

Source: Osterloh/Frost 2003, 99

Thorough integration of the process philosophy is needed so that both the process and structural organizations focus on achieving value for the customer. This also entails the integration of middle management into the core process organization. The top management continues to be responsible for the company's strategic management, while the staff departments may find themselves positioned in the corporate departments or in the core process organization. A new feature of the ideal enterprise as a process organization is that process teams and process owners are responsible for the individual core and support processes.

In many cases, the scope of work for a process cannot be handled by one person on their own, so process teams with a process owner are then formed. The process team receives all the decision-making powers it needs to resolve independently all the tasks in hand in the process. Working in teams provides many advantages:

- The team members' different skills improve the quality of decisions.
- The sense of belonging to a group leads to greater job satisfaction, decreased absenteeism and lower employee turnover.
- Shared group standards save decision costs.
- Participative decision-making reduces resistance during implementation.

In order to tap these advantages, care should be taken to make the team objectives clear, set the right timing, and staff the team correctly. The following three points are of major importance in process work:

- Proximity to the customer

The members of the process team should have direct contact with customers.

- Empowerment

The team has to have the decision-making powers necessary to satisfy customer wishes in the process concerned.

- Supporting information systems

Previously, a great deal of information could only be provided in the functional specialist departments. Thanks to database systems, it is now possible for process teams to have access to all the data they need.

Collaboration in teams naturally also means changing other departments: for example, to promote cooperation in teams, the salary system should include a performance-related component at team level.

The process owner is responsible for an entire process and has line management responsibility. If a process is broken down into several variants, every variant must be headed by one person. Thus, relationships of super ordination and subordination arise in the process organization as well. Process owners represent their entire team externally: internally they should play more the role of a coach or facilitator.

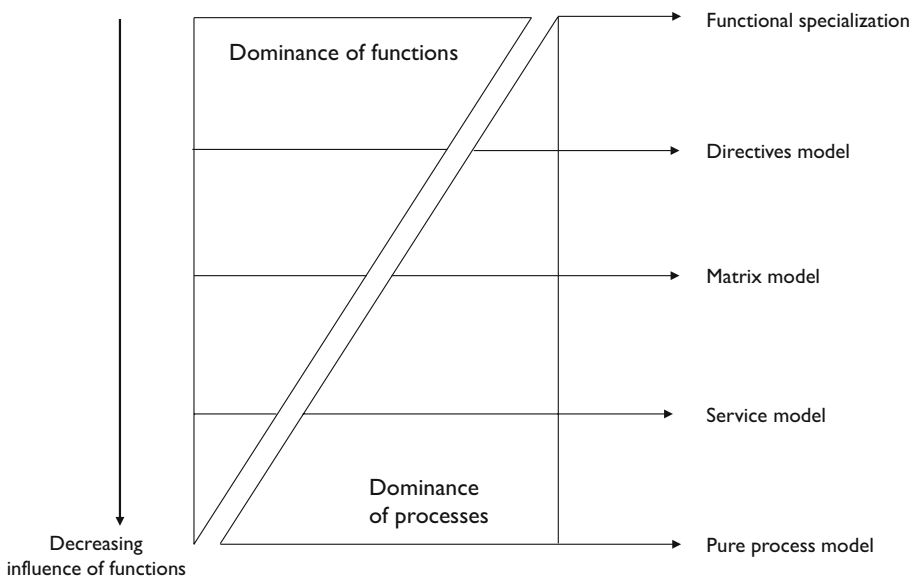


Figure 6.21 Functional Specialist Departments in the Process Organization

Source: Osterloh/Frost 2003, 110

In order to comply with the philosophy of integrated process management, the relationship of the core processes with corporate departments has to be resolved. As previously discussed, the core processes are central, but the departments at the corporate center still exist and should not be forgotten. These have to be incorporated and coordinated with the core processes. It would be practically impossible to resolve all an enterprise's functions into processes and do without functional specialization. Expensive duplications would result if every process had its own legal specialists, its IT specialists, its own finance and accounting department, research and development or marketing department.

A number of models are conceivable for this integration of the functional specialists into the processes (Figure 6.21). Depending on how the various functions influence the process, different levels are possible right up to the pure process model. The levels have different effects on the interfaces and on decision-making between the functional specialists and the process manager. These intermediate forms of the process model can be functional specialization, the directives model, the matrix model, the service model, and the pure process model.

Functional specialization

In this form, the function is carved out entirely to achieve scale effects. It is an independent organizational unit with extensive authority. Interfaces are, of course, in place, and all-around customer-based processing is not implemented.

- Directives model: With this model, the influence of the functional unit is less, to the extent that certain task areas are extracted. The functional unit alone has the authority to make fundamental decisions.
- Matrix model: Functional managers and process managers are authorized to take decisions jointly. Interfaces are also still in place with this model and it is difficult to fulfill customer needs efficiently and effectively within the process.
- Service model: The functional specialist departments act as internal service providers, decide independently on the mode of service delivery, and bill for their services. The process managers draw on the service as needed. Figure 6.21 is based on a service model in which the interfaces can be significantly reduced. Since their responsibility and the core process are not split up, the principle of all-round customer-based processing can be realized.
- Pure process model. The functional specialist departments are not managed and integrated into the processes. Synergy effects ("economies of scope") can thus be achieved. Interfaces are reduced. In describing this model, it should be mentioned, however, that in practice, there will almost never be a separate research and development or finance and accounting department for every process as it would result in unaffordable duplications.

Example**Gate Gourmet Geneva**

The Gate Gourmet Geneva case example is an interesting example of the generation of core processes. It will, therefore, be used here as a representative example of the process idea of business reengineering. However, it also makes it plain that a successful business reengineering project needs to include all three ideas (process, triage, and information networking).

The enterprise and its environment

Gate Gourmet acquired the catering operations of the Scandinavian airline SAS in 1994 and has since grown into the second largest airline catering company in the world. Gate Gourmet comprises 68 businesses and employs around 14,000 men and women in 22 countries. It produces around 100 million meals every year.

At one time, catering activities were generally a department within each air-line. Today, the airlines concentrate for the most part on their core business: transportation in the air. Those areas that do not form part of their core business have been spun off as independent subsidiaries to which work is outsourced. Swissair, for example, carved out its catering department in Switzerland in 1992. Gate Gourmet formed part of “Swissair Beteiligungen AG” (SBAG). The goal of Swissair’s business independence was strengthened by the creation of legally independent companies with the formation of the group’s own holding company. The airline catering market is characterized by the following features:

Increasing cost pressure due to deregulation in the air travel business.

Globalization and concentration on a small number of enterprises: individual, regionally operating catering businesses cannot compete on their own against global players, because many airlines internationally operating want to engage the same catering company around the globe (“single sourcing”).

Increasingly, just as in the USA, offering meals on short-haul flights in Europe is becoming less common.

Increasing the importance of ecological aspects means increasing waste management and recycling costs at some destinations.

Fiercer competition due to return catering: the airlines are increasingly managing to coordinate their routes so that the aircraft is in the air almost non-stop. If, for example, a British Airways aircraft leaves London at half past seven in the morning heading for Geneva, to return to London again around 11 am, provision can be made for both flights in London. The number of competitors is rising sharply with return catering because every European catering enterprise can become a direct competitor.

Below, we will concentrate on the Gate Gourmet Geneva catering company, which was selected by the Board of Management for the reengineering pilot project. A unique feature of Geneva Airport is that it handles numerous VIP flights for passengers from international organizations such as UNO and also private flights.

Starting position: Gate Gourmet’s catering business.

1. The product

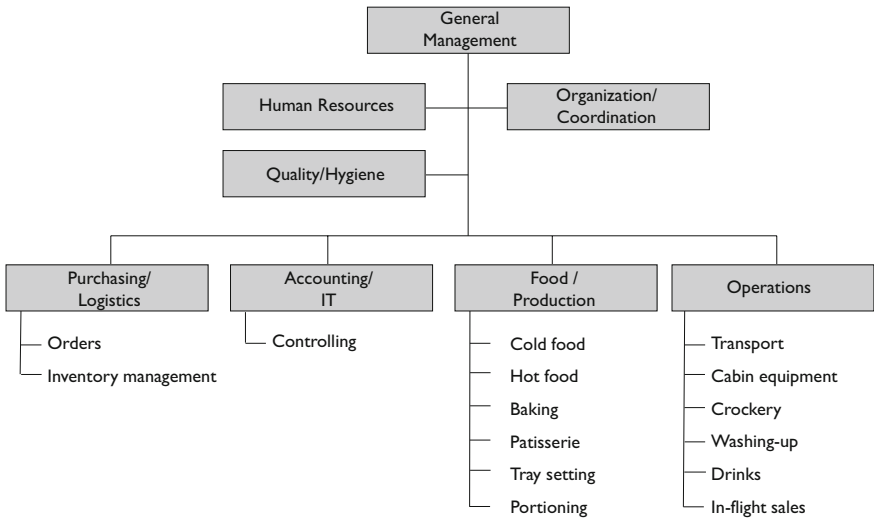
What exactly is the task of a catering company? The customers in this case are the airlines and not the passengers. Most airlines have a section within the marketing department that is responsible for “in-flight passenger catering”. Airlines consider the in-flight services as one of the few opportunities to differentiate their offerings and build their image. Therefore, the design of catering and the rest of the service offering is planned by the airlines as a key marketing tool. The catering companies work strictly to their instructions; for example, the meal specifications stipulate which side of the tray the orange juice has to be placed on and that 40 grams of chicken salad per plate have to be garnished with one-quarter of a 30-gram tomato. Finally, the ensemble must also be served on the airline’s crockery, and Economy, Business, and First Class have different crockery and cutlery.

Furthermore, the catering company is responsible for putting together all the items that are needed on board, from towels, newspapers, and immigration forms to toothpicks and tax-free goods. For long-haul flights this amounts to more than 20,000 articles which are stored in metal trolleys. A catering company, therefore, has to have extensive inventory management and logistics systems in place in order to comply with the individual airlines’ preferences.

It is the catering company’s task to deliver a quantity of meals and accessories on board in accordance with the number of passengers in time for departure. Some airlines only pay for the same number of meals as there are actually passengers on board. Reserve meals are then charged at the expense of the catering company. Since the number of passengers can frequently change even shortly before departure, the catering company has the problem of either keeping reserve production just in case, which may not be paid for, or of producing a small number of “extra last-minute meals” at great expense.

2. The organizational structure

Organizational Form before Reorganization:



There are four functional areas: purchasing and inventory management, accounting and IT, food production, and “operations” (loading and unloading the aircraft cabins). The following are separated as corporate departments: human resources management, hygiene and quality control, and organization.

Food production has high priority within the business., and it is no wonder, after all, everything is here that belongs in a professional kitchen: a preparation area (washing salads, etc.), cold food, hot food, fish, baking, patisserie, and finally, portioning and tray setting.

Operations is responsible for all drinks and the standard equipment. These are also stored in trolleys or boxes. An additional task is the removal of all waste from the aircraft: tidying up the used trolleys, waste disposal, washing down the trolleys, washing the crockery and cutlery in enormous continuous batch washers, with trolleys, cutlery, glasses, and crockery each being washed in a separate installation. At the end of every wash run, the cutlery is automatically sorted and the crockery arranged according to glasses, plates, cups, and bowls and then packed and returned to storage. Employees from the food production department subsequently bring the crockery back for tray setting before another flight. At this point, the work cycle begins again from scratch. The meal trolleys are chilled to 6° C in refrigerated rooms for several hours prior to take-off before they are taken back on board together with the trolleys for drinks and standard equipment.

The business reengineering project

Today, catering expenses only come to 5 per cent of an airline’s total costs. The cost pressure on the catering company is continuing to grow. The airlines’ mission for the catering company was clearly defined: to supply the aircraft with meals and equipment and remove them again. That was not going to change in the future. What did have to change, however, was the behind-the-scenes process so that Gate Gourmet Geneva remained competitive in spite of the competitive environment described. The way it did business had to be completely rethought. The Board of Management also intended to redesign the business activities so that Gate Gourmet would be armed for future developments.

In the context of the strategic process that was subsequently initiated, it became clear relatively quickly that the enterprise had strengths in delivering high-quality services on board on time and in the correct quantity. Therefore, the various areas of the company had to interact smoothly so as not to cause any flight delays. Because of this fact, the key capability did not lie in catering, but in logistics. Consequently, the traditional kitchen area had to be downsized, because the company no longer produced food except for the First Class and special flights. Outsourcing the food to specialized industries was quite a lot less expensive.

The core capability of assembling the desired service to requirements and individually up to a few minutes before takeoff was the starting point for process design. Gate Gourmet identified three core processes and one support process during the project. In addition to the management process provided by the GM (General Management), the corporate departments of Human Resources, Financial Services, and Supply Management were defined. These functional corporate departments were designed as internal services.

In the “Customer Service” core process, all activities with airlines were grouped together, from tendering to billing. The entire customer services process was divided up by customer, so a customer advice group was responsible for up to last-minute service. The team had direct contact with the flight attendants and could implement the “one-face-to-the-customer” principle. This core process, designed as an information-handling process, was directly coordinated with the physical process of equipment handling.

Equipment handling

An organizational gap had been noted prior to the reorganization. Responsibility was not clearly assigned for supplies to and waste disposal from the flight cabins. This logistical service, based on the defined core competencies, was subsequently concentrated into the “Equipment Handling” core process. The process comprised all sub-processes and activities from the removal of the used trolleys with the crockery to loading on board with re-filled trolleys. The entire process used to take around two days before the reorganization. This process was now designed without interfaces by splitting up the process into individual variants that were executed by process teams as “flow lines”. The use of the triage idea is displayed by the fact that the flights were differentiated:

- By long or short-haul flight.
- By airline.

For a long-haul flight, the crockery, etc., had to be provided with different requirements for breakfast, lunch, and dinner. Since the airlines’ requirements varied, the process had to be further differentiated. From this, several flow lines were developed for flights with differentiated requirements. Combined with the principle that a flight’s crockery formed one unit and stayed together, the crockery and trolleys were washed in flexible machines. To ensure flexibility, each flow line had its own dish-washing system for cleaning the different types of crockery. After washing, the trolleys were once more made available for tray setting.

Effects:

- Trolley throughput time was shortened by more than half.
- Fewer interfaces.
- The required working area was reduced.
- Teamwork, job rotation, holistic work design.

Good Supply & Preparation Process

The “Good Supply & Preparation Process” as an internal supply process for Equipment Handling was divided up prior to the reorganization across “Food Production”, “Operations”, and the ordering and inventory management section. This important support process had no external customers and was influenced by the fact that various meals were no longer produced in-house. The process was divided into variants and assigned as a “lines team”:

- “Salt&Pepper Line” (preparation of hot meals).
- “Sweet Line” (dessert production, pastry and customers).
- “Soft Line” (drinks and nonfood articles).

Each team was responsible for everything, from ordering from the supplier to delivery to the internal customer and the Equipment Handling process.

Executive Flights

One small core process, Executive Flights, was responsible for the frequent special flights. The small team fulfilled special requests and operated as a profit center with its kitchen and administration. Strategic process management was launched and implemented at Gate Gourmet Geneva by applying the triage and process ideas and, above all, by clearly focusing the organization on its core competencies. ◀

6.6.6 Points to note on Process Management

Link of strategic and operating levels

The strategically oriented business process management described is thus made up of several levels: the strategic level, process management, workflow management, and the design of the application systems and the organization.

The basis is formed by an orientation to the strategic business areas with their core competence(s), including the critical success factors. The underlying technical-conceptual

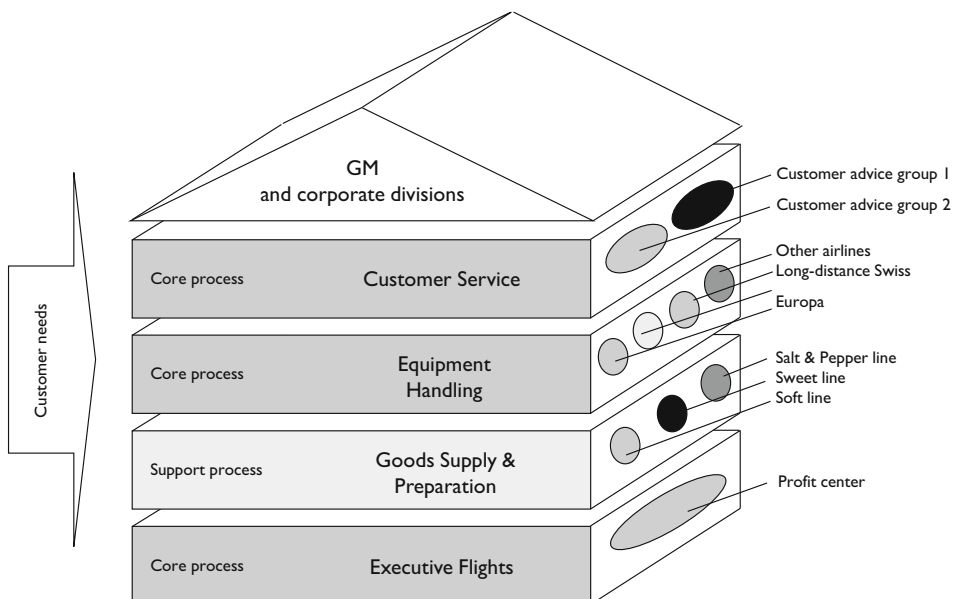


Figure 6.22 Process Management at Gate Gourmet Geneva
Source: Osterloh/Frost 2003, 44

level of process management forms the link to corporate planning. Process management, which is used to derive the processes, comprises the phases of process definition, modeling, and execution. In the definition phase, possible processes for every business area are derived, assessed, and selected based on the strategy. In the next phase, process modeling, the processes are concretized and mapped in a business process. To prevent the creation of unrealistic processes, this phase is heavily influenced by a technical-conceptual perspective. Finally, process execution aims to focus the processes on their performance parameters. Depending on the type and scope of deviations from success and their importance to the running of a project, remodeling, or rather modeling of a new process, may be needed.

Workflow management as an operating level follows this technical-conceptual level, with the phases of workflow modeling, workflow execution, and process monitoring. Workflow modeling extends the business process by specifications that are needed for automated execution of the processes and which can be integrated into a workflow management system. The subsequent execution of the workflow is checked in the system, with process monitoring continuously delivering information about deviations in process behavior.

Success factors in implementation

Improve continuously (management of change)

Business process reengineering is not just restructuring but a sweeping process of redesign. In the introductory phase this redesign requires tough management. Because of constantly changing customer needs, it is particularly important that employees are mentally prepared for all kind of change.

Avoid the following errors

Reading and hearing about failed or discontinued reorganization and business process reengineering projects is not unusual. Surveys in the United States prove that more than half of such projects in major US companies have failed or been canceled (Hammer/Champy 1995). And an empirical study in Germany, Austria, and Switzerland has proved that while enterprises talk about reengineering, they fail to implement rigorously the basic ideas. An attempt can be made to localize some hurdles in implementation. Though not exhaustive, a list of potential stumbling blocks is found below (Osterloh/Frost, 2003, 252ff.):

- Failure to focus on core processes

The redesign of processes as core processes, support processes, and functional corporate departments is not sufficiently observed. The strategy-based recognition of core processes is poor.

- Optimization of an old process

The processes are not redesigned; instead, the enterprise simply tries to streamline the existing ones.

- Prevention by the current corporate culture

Lack of consideration of employees' values and competencies. Employees are overtaxed by the redesign of processes and develop strong resistance.

- Lack of commitment on the part of corporate top management

Top management has to take a hand in business process reengineering because it gives the project the necessary clout. The project lacks strategic orientation, personnel, and non-personnel resources if the commitment is not there.

- Unilateral shotgun strategy

Although a successful reengineering project demands top management intervention, it should not be implemented single-handedly. Middle management, in particular, should be involved intensively because the detailed knowledge of its members is needed to handle the complexity of the process. For example, Osterloh/Frost (2003, 258) suggests a two-way approach that they describe succinctly by the expression "Top-down for targets — bottom up for how to do it."

6.7 Modern Organizational Forms

Modern organizations are typically characterized by their adaptability, dynamic, people-centered openness to change, and focus on innovation. They tend to embrace more flexible structures and practices that allow them to respond quickly to changes in their environment. They often have more fluid and less hierarchical structures and adopt flat hierarchies or network-based models where teams are empowered to make decisions and operate autonomously.

These organizations are designed to be agile, meaning they can quickly pivot in response to market changes, technological advancements, or shifts in customer preferences. This often involves using agile methodologies, lean processes, and continuous improvement practices. Hence, technology plays a central role and it leverages digital tools, data analytics, and automation to enhance efficiency, improve decision-making, and create new opportunities for innovation.

Modern organizations recognize the importance of employee satisfaction and engagement. They often invest in creating a positive workplace culture, offer opportunities for professional development, and encourage employee participation in decision-making processes. With the rise of remote work and globalization, modern organizations often have a diverse and geographically dispersed workforce. This diversity is seen as a strength, bringing in different perspectives and ideas that contribute to innovation and problem-solving. Collaboration across teams, departments, and even with external partners is emphasized in modern organizations. Cross-functional teams and collaborative technologies are often used to break down silos and enhance productivity. Increasingly modern organizations focus on sustain-

ability and corporate social responsibility (CSR). They consider the environmental and social impacts of their operations and often strive to align their goals with broader societal values.

Finally, innovation is a key driver for modern organizations. They foster a culture of continuous learning and experimentation, encouraging employees to think creatively and take calculated risks to drive growth and development. The innovation has a strong emphasis on understanding and meeting customer needs. This often involves using data-driven insights to personalize products and services and ensuring that customer feedback is integrated into the development process. They use data analytics, business intelligence, and performance metrics to inform strategies and make informed decisions.

6.7.1 Lean Management — Modular Organization

The main concern of lean management is to make organizations leaner by eliminating non-essential operations and complexity. The ideas of lean management, and specifically lean manufacturing, sprang from several sources. Including the work of William Edwards Deming, the pioneer of quality management. Japanese companies, particularly Toyota, further developed their process-oriented view of the performance of activities from the 1950s. Toyota's production system can be reduced to a few essential core ideas (Ohno, 1988, 17ff., Shingo, 1989, 67ff.).

Core ideas of the Toyota production system

Individual skills and teamwork

The deployment of individual skills and talents coupled with teamwork to achieve super-ordinate goals.

Standard workplan (operating time, sequence, inventory)

Standards are to be defined by identifying and eliminating operations that are not relevant to value-adding (waste).

Autonomation

Autonomation means human automation. Machines that are operating normally do not need human attention. Human intervention is needed only when problems or failures occur, and is then used to solve the root cause of the problem.

Kanban

Kanban is the Japanese word for card or sign. There are therefore different kinds of Kanban. They may be carriers of information with which a product runs through the manufacturing process and which contain the required work instructions. However, a Kanban may also trigger the supply of new materials. Within a system, the Kanbans serve to ensure that the required goods are produced in the necessary quantity at the correct time.

Production smoothing

Volume fluctuations in the individual processes have to be planned and smoothed out as far as possible so that the process as a whole runs without bottlenecks or overcapacities.

Information system

Every assembly line is informed of the type and volume of the goods to be produced.

The core ideas lead to a just-in-time production flow. Just-in-time means that the required quantity of parts reaches the assembly line precisely at the right time. The value of the product processed then increases at every step of the production flow.

At first, lean thinking was related only to the production process. It was not until the 1970s and 1980s that this mindset was extended to other business processes.

James P. Womack, Daniel T. Jones, and Daniel Roos (1990) then demonstrated to the Western world for the first time the incredible performance differences in the Japanese compared with the European and American automotive industry in their standard work "The machine that changed the world". Their comparison also shows the key elements that explain the performance differences and holistically describe the principles of lean production.

Lean thinking

According to Womack/Jones/Roos (1990, 1991), "muda" is the only Japanese word you have to know in connection with lean management. Muda means waste. All activities that require resources but do not generate any value added are waste: errors that have to be corrected, production of things no one wants, unnecessary process steps, wait times etc. Lean thinking is an effective remedy for muda. An important point here is the analysis and identification of actual value added.

Identification of Value added

Examining all business processes needed to generate products (that is, product development, information management, and the actual production process), reveals where added value is created and resources wasted. Based on this analysis, Womack et al. (1990, 1991) distinguish three different types of activity:

- Clear value added
- Not clear value-added, but unavoidable waste
- Not clear value-added, with avoidable waste

This analysis must also be extended to supply companies, particularly to existing contracts (quality, delivery dates, etc.).

The wasteful activities have to be eliminated in a further step. It soon becomes clear here that departmental thinking or large numbers of production steps are responsible for a large number of wasteful activities. As a result, process organization becomes an issue. Functions and departments have to be rethought. Here, too, the leading example is Toyota. Toyota has worked out how to balance the various manufacturing steps with multifunc-

tional tools and coordinated machine capacities, and consequently, how to keep production in constant flow (Ohno, 1988, 54ff.).

Core elements

In summary, it can be said that the lean philosophy focuses on core skills, customers, value chains, and processes. Core skills are excellent skills, products, or know-how that enable an enterprise to differentiate itself from competitors. Core skills should be identified by examining the enterprise's own value-adding steps.

Customer focus means, above all, concentrating business activities and resources on deliberately selected customers. A central element of the lean philosophy is the deliberate selection of lucrative customer segments in which the enterprise can use its core skills to solve customers' problems.

The total value chain comprises the production of the raw material and the individual processing activities through to sales. Finding out which part of the value chain is supported by the enterprise's core skills is the most important decision in focusing on the value chain.

A process orientation instead of a functional orientation in the lean philosophy means reducing losses or eliminating waste. Although the lean concept requires concentration on essentials, it cannot be allowed to reach the level of entrepreneurial anorexia. Simply, energies have to be focused on the core skills and defined customer segments.

Lean management methods and tools

The central features of lean management are modular organization, team production, outsourcing, and supplier integration (Osterloh/Frost, 2003, 149ff.). These must be balanced to allow the enterprise to achieve the maximum results (an optimum product for the customer) with the minimum effort.

Modular organization

Segmenting the production of product groups into modules achieves greater product variety with less production complexity. Second, the assembly of end products is much easier and more robust because only a small number of modules have to be put together. Third, storage and transportation costs are reduced because the production of the modules is arranged on the process principle. Fourth, the modules are produced in semiautonomous work groups, which generally coordinate themselves and develop employees' skills.

Team production

As previously mentioned, the modules are produced by self-coordinating teams. That typically take responsibility for one self-contained task area. Depending on the level of team autonomy, this is called classic or reflexive Toyotism.

In self-organized teams, the individual team members and the group need sufficient skills to function. The teams are characterized by the following features:

Autonomy

An autonomous scope of action is defined for the group. Superiors determine, control, and change the framework conditions.

- Group responsibility for the task complex is required.
- Performance control instead of procedural and process control is the aim
- The concept of “overlapping groups” enables the flow of information.

Skills

- Specialist skills
- Specialist know-how and knowledge and practical experience.
- Method skills
- Analysis, planning, and problem-solving techniques have to be mastered.
- Interpersonal and social skills
- Independence, responsibility, cooperative, and communication skills in collaboration with internal and external customers are needed.

Authority to act

Constructive collaboration is the aim in order to satisfy the different internal and external stakeholders.

Outsourcing

The idea of modularization is expanded beyond the boundaries of the enterprise by the outsourcing concept. Entire subsystems are taken over by suppliers. The advantage of this measure lies in decreased vertical integration and concentration on the enterprise's skills. In addition, the number of suppliers is reduced and with it the number of interfaces.

Supplier integration

As mentioned above in lean management a large proportion share of the value creation is provided by suppliers who deliver entire modules to the enterprise. The relationship between the producer and the supplier is fundamentally altered. It therefore makes sense, for example, to involve suppliers as early as the product development stage. However, this relationship of dependency also means that the suppliers have to be reviewed and checked regularly from the point of view of cost, quality, and time-keeping.

The resulting vertical value-adding partnerships should be seen as a middle way between markets and integration.

6.7.2 Virtual Organization

A virtual organization is typically a small core enterprise that passes on important operations to external resources. Virtual organizations are highly decentralized, function independently of space and time, are characterized by temporary virtual value-adding networks and can rarely be described by physical attributes (Davidow/Malone, 1993, Handy, 1995, Littmann/Jansen, 2000, Scholz, 2000).

The trend towards virtual organizations, which can be seen in many quarters, stems from the desire for increased flexibility. A network of relationships makes it possible to pass on even important value-adding activities to temporary partner firms and to complete contracts better and more cost-efficiently.

An important key competence of a virtual enterprise is coordinating its own activities and external relationships. This coordination function has only become possible because of progress in information and communication technology.

Virtualization as a permanent reinvention

“Oszillodox” by Littmann/Jansen (2000) saw the publication of a comprehensive work which discusses the different aspects of this new form of organization.

The objective and also the fundamental concept here is to optimize the value chain, which means concentration on core skills and outsourcing of support processes and activities. If this fundamental concept can be successfully implemented in reality without disadvantages to internal and external customer and without excessive coordination, this can be termed the roots of a virtual enterprise.

Scholz (2000) also defines a number of features that, taken as a whole, describe and characterize the virtuality of enterprises. The constituent features apply both to traditional enterprises and virtualized assets. The issue here in particular is that the enterprise has to present a single face to its customers and is interested in overall optimization of the value chain. The classic physical attributes of an enterprise are absent in the virtual organization. The entity has no shared legal umbrella or, for example, shared administration. A special additional qualification is needed to achieve virtuality:

- An adequate IT infrastructure with the right know-how to connect the individual units in a virtual integrated enterprise.
- Trust that has grown over time between the individual players.
- Individual core skills and the skill of synergistically combining the above-mentioned core skills.

Virtual organizations attain additional value aspects due to the absence of physical attributes and the presence of special additional features. For example, they are more flexible and adaptable or have synergy potential among the individual elements.

Example

First Mover Puma — “A virtual corporate group is no pipe dream”

In 1993, sports goods manufacturer Puma was a company with no prospects worth mentioning. Its share price had dropped to 7 euros and its image was in ruins. Jochen Zeitz, then the new CEO at 29, went for radical change and combined sports consistently with lifestyle and fashion. One of his aims was to transform the enterprise into a virtual corporate group: A rigorously decentralized and globally operating enterprise was to be realized (David 2004, 27). The first step was to discontinue in-house production and relocate it to Eastern Europe and Asia. The decision not to have his own factories met with incomprehension in some quarters, but Jochen Zeitz and his team acknowledged no taboos. Production and the network of partner companies are now controlled from the corporate center in Hong Kong. ◀

Littmann/Jansen (2000) further developed Scholz’s approach (2000). They attempt to define the virtual enterprise based on an ideal-typical comparison with the traditional enterprise.

To be able to capture the phenomenon of the virtual enterprise even more precisely, Littmann/Jansen distinguish four different perspectives of virtualization: intraorganizational, interorganizational, extraorganizational, and customer-based virtualization.

Intraorganizational virtualization

- *Delocalization of processes:* The enterprise can to a large extent dispense with spatial integration of the company, the different processes, and its employees.
- *24/7 organization or virtualization as temporary asynchronization:* Information and communication technologies release the enterprise from time constraints. Organizations are available 24 hours a day and 7 days a week. Research and development efforts may be carried forward asynchronously in different time zones. Accordingly, virtual enterprises benefit from “economies of speed”.
- *Dematerialization:* Traditional office premises and, conventional points of sale are replaced by virtual offices and, virtual shopping malls — the new meeting places of the organization and their internal and external stakeholders are “virtual reality”.
- *Dynamic destructuring:* Organization manuals, job descriptions, and organization charts as symbols of structural organization are eliminated. We see the start of the dominance of procedural organization in the form of process-driven modularization, with a project- and customer-related reconfiguration of business areas, departments, and work teams.
- *Resource potentialization:* Unutilized capacities and underused resources are increasingly at the center of entrepreneurial activities. Innovative goods and services can be offered on the market.

Extra-Organizational virtualization

- *Value-added optimization:* Atomization of the value chain, that is, a provider is sought for every individual process, who, if possible, sets global market standards. This requires a reintegration of all atomized and detailed value-adding activities. Planning, comparison, or procurement of information relating to existing offerings are to be regarded as customers' value-adding elements that have to be integrated. As a result, an added value is created for the customer which ensures that the offering is differentiated.
- *Core team and freelancers:* The organization confines itself to a small number of highly paid and professional employees who hold all the business knowledge. This core team is supplemented by a network of independent sub-contractors and freelancers. Thanks to information and communication techniques, they are in mobile and flexible cooperation with the organization.
- *Independence from suppliers:* Virtual companies tap into the possibility of switching suppliers and cooperating with changing partners ("co-destiny" or "single-sourcing").
- *Interfaces or IT compatibility:* "Vertical control" of the value added requires smooth compatibility of the linking technologies.

Interorganizational virtualization

In this sense, virtual enterprises represent a network of integrated organizations that operate as something between a market and a hierarchy. They re-form when customer problems or market opportunities are identified, configure their collaboration and are operational. They lapse when projects end. Stability becomes more probable through the permanent awareness of instability.

Small companies in a virtual network attain global reach and market presence through the decentral administration and use of resources. Knowledge, human resources, and relationships are transient and mobile. Interorganizational virtualization allows small organizations to have global market presence without any significant fixed costs or inflexibilities.

Customer-based virtualization

- *Brands as identity:* Brands act as virtual identity machines. However, lack of transparency prevails in the value-adding structure of virtual companies. The level of transparency is increased only if this has clear value added for the customer.
- *Customer integration:* Here, hybrid strategy means product differentiation together with falling prices. Problems are solved for customers in virtual enterprises. Single-source systems solutions are offered around the clock. This is only possible through constant customer integration.
- *"Customization":* The virtual enterprise has to be able to combine cost-efficient mass production with individual customized output.
- *"Economize your business":* Distribution also has to be virtualized. The keywords here are e-commerce and e-business.
- *"Consumer control and customize your company":* Customer needs have to be considered at the beginning and end of the virtual enterprise.

The trend towards virtual forms of organization is a consequence of various changes in the interaction of enterprises with entities external or internal to the enterprise. With the virtual enterprise, a form of organization is realized that radically exploits cost-reduction potentials, delivers and offers innovative products or services, secures itself extreme flexibility by multiple possible combinations, and considers itself open to the broadest possible range of change process.

It soon becomes clear that traditional forms of organization are overburdened with these ambitious objectives. For this reason, new approaches (process management, lean management, strategic alliances, networks, etc.) have been developed and presented in the past. However, new problems arise with modern methods. In their pure form, these organizational approaches do not appear to be able to cope with the demands of the times either. This is where the ideal-typical organizational forms take over. These appear to satisfy the highly dynamic and demanding conditions of global markets.

6.7.3 Cluster Organization

In the cluster organization, subsystems, or clusters, are formed for the key business processes (see System of Systems chapter 2). These may comprise 30 to 40 employees and are networked with the total enterprise with the minimum hierarchical requirements. The clusters or teams are backed up by support groups.

To a large extent, the individual teams set their objectives themselves and have their own organizational resources. The emphasis here is not on regulations such as specifications, titles, official channels, etc., but on attributes such as momentum, initiative, job rotation and job enrichment, cooperation, etc. Decision-making power is pushed down to the lowest possible level. This is intended to promote the teams' sense of responsibility and flexibility. A network structure in an enterprise can lead to the following advantages:

- Entrepreneurial behavior by employees
- High flexibility
- Good climate for innovation
- Varied deployment of employees in line with strategy
- Low overhead costs

Naturally, however, negative consequences entailed by working in clusters also have to be considered:

- Instability of the system
- Dependence on a small number of team leaders
- Impossible to use traditional controlling tools
- High social demands on employees

The idea of the cluster organization automatically meets with great resistance from middle management. Middle management has to reckon with a loss of authority and power with

the systematic delegation of responsibility to divisional teams. In some circumstances, individual management positions would even be lost entirely to rationalization. In practice, this idea is implemented mainly in innovative and rapidly changing areas, e.g., in the telecommunications industry or in research and development.

The idea of the network organization plays an important role chiefly in those areas where information technology is in the foreground. The use of modern information technologies places the cooperation of individual employees within the enterprise or cooperation between enterprises in the market on a new footing. The notion of forming “pseudo-enterprises” through cooperation mapped on the new technologies is the notion of the virtual company. No fixed divisions exist between departments, enterprises, suppliers, and customers. The boundaries are constantly being redrawn, with the flexible structure of the network organization approaching this idea most closely.

6.7.4 Holacracy, Teal Organization and Self-Organization

Hierarchy-free organizations have become a trend that is attracting increasing attention both in practice and in research. Success stories of individual companies that attribute their capabilities, essential for survival in dynamic markets, to hierarchy-free structures have led to growing interest. For example, the US chemical manufacturer W. L. Gore & Associates, a pioneer of the non-hierarchical organizational structure, is considered to be particularly innovative and also considers its high employee satisfaction to be a result of its non-hierarchical structure.

Modern organizational models, such as Holacracy or Teal organization, follow this trend (Bernstein et al. 2017). They describe themselves as revolutionary management systems that abolish (formal) hierarchies and promise organizational structures in which all employees can make decisions autonomously and avoid power imbalances. It is no longer just micro-enterprises that are thinking about non-hierarchical structures. Due to their comparatively low coordination effort, freedom from hierarchy tends to be more feasible. Nevertheless, large companies, including Vattenfall and Daimler AG, have also begun experimenting with hierarchy-free organizational models.

Great companies are built on hierarchically solid organizations. But, in today's complex, fast paced, and changing environment, hierarchical organizations may reach their limits in several ways. Flexibility, multitasking, self-determination, and self-organization are just a few keywords that can express this. In recent years, new forms based on self-management have been occurring, like François Laloux's (2014) Teal organization. Teal organization is based on a holistic approach, enabling individuals to self-organize and self-manage to achieve an organic organizational purpose, hence an evolutionary way from the bottom-up. The organizational purpose is developed by all organizational members, who bring emotional, intuitive, and spiritual facets of their being into the organization.

Holacracy, the most widely adopted self-management system, was developed by Brian Robertson (2015, 2016) and is often seen as a radical departure from traditional management systems. Holacracy fosters agility and allows organizations to adapt quickly to change by continuously evolving roles and processes. It is also based on empowerment and employees

have more autonomy and influence over their work, leading to increased engagement and job satisfaction. Holacracy does not mean there is no structure, rules, or order. The principle of order is how the work is done in a company and no longer the power of the structure. This means that the structure is no longer static, but is continuously improved and further developed by all the people who work in the company. Holacracy is marked by different key features: constitution, circles, tactical meetings, and governance process.

An essential part of Holacracy is the constitution, the fundamental power tool where all “rules” are written down and followed by all employees. It offers actionable guidelines and serves as a framework. They don’t tell anything about the structure, but express customized processes for each business. Instead of traditional job titles, individuals fulfill multiple roles with specific responsibilities and accountabilities. These roles are dynamic and can change as the organization’s needs evolve. The roles are grouped into “circles,” which are semi-autonomous, self-organizing teams. Each circle is responsible for a specific function within the organization and has the authority to make relevant decisions. Circles can contain sub-circles, creating a nested structure. Circles hold regular tactical meetings to discuss operational issues, allocate resources, and address any obstacles that arise in day-to-day work. Holacracy includes a formal governance process to define and evolve roles and policies within each circle. This process allows team members to propose changes to the structure, roles, or decision-making processes. This process allows decentralized decision-making, with authority distributed to the roles within circles. This approach reduces bottlenecks that can occur in traditional hierarchical structures and empowers employees to take initiative within their roles. Holacracy promotes transparency in decision-making and organizational structure. All roles, responsibilities, and decisions are documented and accessible to everyone in the organization, ensuring clarity and accountability. It is obvious that Holacracy is faced with several challenges. The implementation of the structure and processes of Holacracy can be complex and may require significant training and cultural adjustment. The shift from a traditional hierarchy to Holacracy can be challenging, particularly in large or established organizations, and implementing it may present unique difficulties.

Example

Favi, Zappos and Buurtzorg

FAVI: With 400 employees, the French automotive supplier is one of the largest companies examined and described as part of Frédéric Latoux’s Teal movement. Self-management practices were gradually introduced and implemented in a time-consuming change process lasting around 20 years.

Buurtzorg: The Dutch non-profit organization is active in mobile care for the elderly and sick. Buurtzorg employs around 10,000 people, almost all of whom are registered nurses and care assistants. Like FAVI, Buurtzorg is also considered a Teal organization but has been practicing self-management since it was founded in 2007.

Zappos: The US online retailer sells shoes and fashion items as a subsidiary of Amazon. Since introducing the Holacracy model in 2013, Zappos has become the largest company to use this organizational model, with around 1,700 employees. ◀

Buurtzorg and Zappos are not hierarchy-free organizations, contrary to the promises of the organizational models on which they are based. A potentially negative effect on organizational performance resulting from the effect of hierarchies on motivation is offset by potentially positive effects resulting from faster decision-making and greater efficiency. For example, coordination processes at FAVI, which rely heavily on team coordination and consensus building, can take longer than at Buurtzorg or Zappos, which rely on hierarchies if team coordination does not bring success within a defined time frame. The fact that Buurtzorg and Zappos are not completely hierarchy-free may, therefore, be a conscious decision made in favor of greater efficiency.

Nevertheless, the example of FAVI shows that hierarchy-free structures can also be successfully implemented. In addition to the management system, in which the permanent allocation of special decision-making rights is prevented through time limits and regular rotation of job holders, the combined use of rule-based coordination mechanisms and team coordination plays an important role. Since hierarchy-based coordination is often used intuitively, non-hierarchical organizations should establish either formal or informal rules and norms that are universally valid and binding to ensure that all unexpected coordination problems are solved through team coordination processes.

6.8 Corporate Governance

An enterprise's management organization has to ensure that the enterprise is manageable/controllable. Management organization, or, as it is currently referred to, corporate governance, is concerned with the structure of the top management and its oversight. Different problems need to be solved, and these present themselves in different ways depending on the legal form and size of the enterprise. The public debate on the composition of the Swiss Board of Directors focuses chiefly on listed companies. However, the majority of enterprises are not listed companies but are backed by a single owner or a family of owners. In a small enterprise, management is concentrated in the hands of one person or a few people, and the management organization is frequently influenced by family members. The phenomenon of family as shareholders significantly impacts the management organization's constellation. It is typical for family-owned stock companies constituted under Swiss law, in particular, to have family members in management roles. For example, the senior boss still has the position of Chairman of the Board of Directors while the junior boss will have attained the CEO's position. The members of the Board of Directors may also be from the family, there by right of inheritance, with two to three external individuals in addition.

View from the media: How unions are fighting a boardroom battle at Starbucks

An SEC rule change giving shareholders more power to exert influence threatens to shake up corporate governance in the US, – with an early case involving the Seattle coffee chain set to be a critical test.

Financial Times, January 25, 2024, by Ortenca Aliaj and Patrick Temple-West

There is a famous story about Starbucks that is often cited during discussions of governance: at board meetings, there is an empty chair to represent the interests of the coffee giant's employees. The idea was proposed by its former chief executive Howard Schultz to show that the company's baristas have a symbolic seat at the table. But that token gesture is on the verge of becoming a reality. A group of trade unions is mounting a serious proxy fight that could put a trio of directors on Starbucks' board to be a voice for its rank and file. It is a remarkable turn of events for the coffeemaker, which has long marketed itself as one of the most worker-friendly environments in corporate America. Starbucks is famed for offering its workers the kind of benefits that are often out of reach for low-income employees in the service industry, such as college tuition, generous health insurance and stock options. That goodwill has been tainted as Starbucks cracked down on unionisation efforts by its employees, which began two years ago in Buffalo, New York, with demands for better pay and more consistent shift patterns. The company denies union busting. Now Starbucks is the target of an unprecedented attempt by trade unions to bring the fight directly to a company's boardroom.

<https://www.ft.com/content/08c00024-3dc7-4d48-9dcd-670f93016973>

As in small and mid-sized enterprises, of course, the management organizations of large companies are heavily influenced by legislation. Corporate governance is embodied within the framework of current legislation. The topic of corporate governance has been hotly debated in the past few years, and new laws and recommendations have been developed in various countries. Switzerland, with its diversity of large, mid-sized, and small stock companies, builds on its company law, which has provided better foundations since company law reform came into force (July 1, 1992). These design principles are, in some cases, different from those of German or Anglo-Saxon law. The Swiss Code of Best Practice for Corporate Governance, developed in Switzerland, is based on a number of country reports. On the one hand, the reports from the United Kingdom should be mentioned: the 1992 Cadbury Report, the 1998 Hampel Report, and finally, the Combined Code that is binding on all companies on the London stock exchanges as a listing requirement. On the other hand, we have draft texts from France (Rapport Viénot) and Germany (Deutsche Corporate Governance Kodex, written in 2002). Under the Swiss Code of Best Practice for Corporate Governance produced by Economiesuisse (the Swiss Business Federation) (SFAA 2002, 5, 31), the following definition may set the direction for Swiss public limited companies: "Corporate governance encompasses the full range of principles directed towards shareholders' interest seeking a good balance between direction and control and transparency at the top company level while maintaining decision-making capacity and efficiency."

Because of their different historical economic development and regulatory frameworks the corporate governance systems of different market economies are distinct from one another. Worldwide, three actual types of governance have emerged (USA/UK, Continental Europe, Japan/Korea). Academic studies show that the impact (the result produced) of the three systems does not differ, but the speed of adjustment does. Companies in the Western industrialized nations basically have the following systems available to them:

- The Supervisory Board model (two-tier system)
- The Board structure (single-tier system)
- The Board of Directors model (single-tier system)

Compulsory in Germany, the Supervisory Board model has the Supervisory Board, the Managing Board, and the General Meeting of Shareholders as managing bodies. The Supervisory Board, as its title suggests, monitors the executive body (the Managing Board) in the interest of the stakeholders. The Supervisory Board and the Managing Board are presided over by a Chairman. Among other things, the system makes it possible for employees' representatives to have seats on the Supervisory Board. Half of the Supervisory Board of companies with more than 2,000 employees must be made up of employees' representatives.

As a collective, the Managing Board, or Board of Management, staffed by in-house members, has unlimited management responsibility and undertakes all strategic management tasks. The Supervisory Board, therefore, only has an indirect influence on strategy because it can determine the composition of the Managing Board. This clear separation between management and oversight is also regarded as the key advantage of the Supervisory Board model.

In the Anglo-Saxon countries, the single-tier Board model is prevalent. It is single-tier in the sense that the management and oversight of the enterprise are integrated. The Board is the only managing body and is composed of both internal and external directors. The Chairman of the Board is at the head of the company, a role that could also be played simultaneously by the Chief Executive Officer (CEO). Therefore, the Chairman holds considerable power, a circumstance that has been the subject of heated debate in recent years.

Example

Tesla's current board members

Robyn Denholm: A board member since 2014, the Australia-born accountant became chair in 2018. Denholm had several corporate roles in Silicon Valley before returning to Australia to join Telstra, the country's largest telecoms group. She has been effusive about Musk, telling the Australian Financial Review that "he [Musk] is great, he's just phenomenal."

James Murdoch: The younger son of media mogul Rupert Murdoch, James joined the board in July 2017 while running 21st Century Fox. Since parting ways with his father's media empire, he has led Lupa Systems, an investment vehicle he set up to buy media assets.

Kimbal Musk: Kimbal, Elon's younger brother, is described by the carmaker's website as "an entrepreneur, activist and chef." He has been a board member of several of Musk's ventures. He co-founded the technology company Zip2 Corporation, which was acquired by Compaq in 1999. Musk has also served as director of Chipotle Mexican Grill. ◀

Special committees are often added to the Board's remit. On the one hand, a group of Executive Directors, which carries out the function of operational management, can be appointed from among internal directors who are not on the Board. On the other hand, an Audit Committee of external directors and subject specialists is formed so that the Board can be independently overseen. These optional committees bring the Anglo-American system very close to the German Supervisory Board model.

Nevertheless, the Board model has a significant advantage because external directors are more involved in strategic management decisions. However, this also means that external directors have to be better informed and able to devote more time to the job. Disadvantages worth mentioning are the potential power if the Chairman and CEO are one and the same and the fact that an imbalance of power can generally arise within the enterprise.

The Board of Directors model in Switzerland is also a single-tier system and is distinguished from the Board model by its high level of flexibility. It has three managing bodies: the Board of Directors, the General Meeting, and the auditor. This opens up the possibility for enterprises to separate management and oversight functions because the management function can be assigned to one or more delegated managers outside the Board of Directors. Consequently, management and oversight can be institutionally separated based on the Swiss Code of Obligations (Obligationenrecht). This flexibility leads to different kinds of corporate oversight and management; management and oversight are undertaken by the Board of Directors as a collective.

Insider-outsider Board

The management remit is delegated by the Board of Directors to one or more members of that Board. The Board of Directors performs the oversight function itself.

Outsider Board

The management remit is delegated by the Board of Directors to one or more directors who are not members of the Board of Directors. Oversight is performed by the Board of Directors.

Board-Supervisory Board

The management team is composed of one or more delegates from the Board of Directors and one or more directors who are not members of the Board of Directors. The Board of Directors performs the oversight function.

Therefore, the composition of the Board of Directors plays a crucial role. Its size should be determined in such a way that efficient decision-making is possible and that its members contribute experience and knowledge from various areas to the group and divide up the functions of management and control among themselves. The size of the Board of Directors must be in line with the requirements of the individual enterprises. The members

of the Board of Directors should be people with the necessary skills to ensure independent decision-making in a critical exchange of thoughts and ideas with the top management team (Baldegger 2020, 72f.). The majority normally consists of members who do not perform operational management tasks within the enterprise (non-executive members).

According to a study by rating agency, Governance Metrics International (GMI), US enterprises have the best corporate governance standards, ahead of Canadian and British companies. This result was produced, based on an assessment of corporate policy towards investors at 2,599 enterprises. Since 2002, the bi-annual rating has assessed listed companies by criteria, such as transparency, shareholder rights, responsibility of the Managing Board, compensation paid to managers, corporate behavior, and social responsibility. The study confirms that the tighter accounting laws, particularly the Sarbanes-Oxley Act, have led to improvements in the USA after the accounting scandals in the past.

Chapter Appendix

Key Takeaways

- A company's organization and structure must always be considered in the context of its strategy and culture. An isolated approach should be avoided.
- Identify and explain various organizational structures (e.g., hierarchical, flat, matrix, network-based) and designs and understand how these structures impact organizational performance and employee behavior.
- Evaluate the effectiveness of different organizational designs in different contexts and understand the trade-offs in choosing one structure over another.
- The configuration of any organization is complex, encompassing a host of elements and requiring different approaches.
- Organizational forms and instruments must correspond to the company's needs and be adapted to its strategic objectives.
- Apply key concepts and theories to analyze and address real-world organizational problems, such as improving efficiency, fostering innovation, or managing diversity.
- Develop strategies for organizational improvement based on theoretical frameworks, using case studies and practical examples.

Review Questions

1. What is your opinion of the following statement? "Efficiency and effectiveness can only be accomplished if an optimum management structure, i.e., the interaction between the Board of Directors and the management team, is clearly defined within the enterprise."
2. What functions does a job description have in an enterprise, and what do you see as the difference between a job description and a job contract?

3. Draw a staff-line system with a functional structure. Explain in brief two advantages and disadvantages of the function-based form of organization.
4. Describe the main tasks of a product manager in a mid-sized enterprise. Please also state in brief the requirement profile of a product manager.
5. Comment on the following statement: “Petty-minded management behavior is a poor breeding ground for product management.”
6. What are support processes, and why may it make sense to benchmark these processes?
7. Name three problems of the rigid vertical view of structural organization.
8. Name and explain the most important criteria of core processes.
9. Compare process segmentation by customer group with key account management. What points do they have in common, and where do they differ?
10. To what segmentation idea does the statement “one best way for each given situation” refer? Explain this idea, particularly the disadvantages/problems.
11. One problem in a process organization is the relationship of the functional specialist departments to the core processes. The figure below shows one possible process organization.
12. In what way are the collaboration and decision-making between process managers and functional corporate departments organized in this enterprise?

End of chapter discussion 1: Sony’s 2021 Reorganization

In 2020, Sony announced that it planned to change its company name from Sony Corporation in a relaunch to Sony Group Corporation, effective April 1, 2021. This relaunch was announced to increase the overall value of the Sony Group. Prior to the relaunch, Sony Corporation had two main functions: The first was to act as the headquarters of the Sony Group and the second was to provide overall management support for its electronics businesses. With the relaunch, these functions were separated and redefined, with the Sony Group Corporation focusing on its role as the headquarters of the Sony Group. In conjunction with this change, the Sony Group’s executive structure was optimized for a new groupwide management structure and new executive structures were created for key electronics businesses, including Music, Game & Network Services, and Imaging & Sensing Solutions.

Sony Group Corporation’s executive team was also reformed from the heads of Sony’s key group headquarter functions and core Sony Group businesses and structured in a way that enables the Group to formulate and execute corporate strategies effectively. Sony’s organizational structure incorporates several different types. It is primarily based on functional and business-type groups but includes geographic divisions and elements in matrix organizations. Six key functional and business divisions are under the Sony Group as of the recent relaunch.

These are Game & Network Services (Sony Interactive Entertainment), Music (Sony Music Group, Sony Music Entertainment, Sony Music Publishing, Sony Music Entertainment Japan) Pictures (Sony Pictures Entertainment), Electronics Products & Solutions

(Sony Corporation), Imaging & Sensing Solutions (Sony Semiconductor Solutions), and Financial Services (Sony Financial Group).

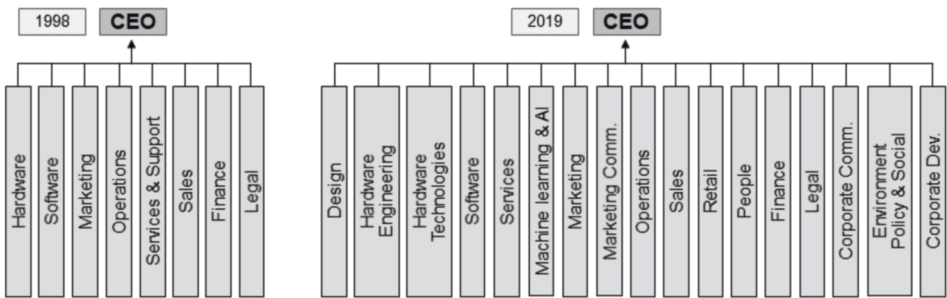
Each of these divisions is led by a Sony Group Corporation executive. For example, Senior Executive Vice President Rob Stringer is designated as the Officer in charge of Music Business (Global) within Sony Group Corporation. In this role, he is also the Chairman of Sony Music Group and the CEO of Sony Music Entertainment — both are independent entities with their own executive and organizational structures.

Question:

1. What have been the reasons that Sony relaunched its operation in several independent business groups?

End of chapter discussion 2: Apple’s Functional Organization

Discuss with a colleague the pro and cons of the Apple’s organization:



View from the media: Musk’s 55bn setback over share awards ‘creates tornado situation’ for Tesla board

Executives under pressure after Delaware judge rules billionaire CEO has to forfeit largest ever incentive package
Financial Times, February 1, 2024, by Peter Campbell, Tim Bradshaw, Euan Healy, and Sujeet Indap

A Delaware judge has ruled Elon Musk has to forfeit \$56bn of Tesla share awards from a long-term pay package, causing a storm at the electric-car maker and threatening to distract its boss from troubles at the company and across his business ventures.

Why was the pay deal so generous?
In early 2018, when Tesla laid out the pay incentive scheme for Musk, many saw it as fanciful. The deal was intended to lock him into the business at a time when the board

was worried he might turn his attention to SpaceX or other ventures full-time instead. The scheme set out 16 separate financial targets spread across profits, revenues, and market capitalization and awarded Musk stock worth about 10 percent of the company. If he were to hit 12 of the 16, he would be able to vest shares worth upwards of \$50bn — the largest pay package ever granted. The most ambitious targets were for revenues of \$175bn, adjusted earnings of \$14bn, and a market capitalization of \$650bn. At the time, Tesla's market value was \$59bn, and as part of the deal, Musk — who received no salary or any other pay from the carmaker — would get nothing if the valuation did not reach the \$100bn mark.

Back then it was not a given prospect: Tesla was in the midst of “production hell”, building cars in a tent in its car park while making some models without seats or computer modules because of supply chain fumbles. With previous production milestones missed, just \$12bn in sales and the company scraping barely \$400mn in profits, targets of overtaking General Motors in revenues and Microsoft in valuation seemed unattainable. “

No one took it seriously,” said a former Tesla insider. Yet the company increased output, sales soared, and shares rose past those in Toyota, topping \$1tn in overall market value. Last year, its Model Y, which was launched in 2020, became the best-selling car worldwide. “He did it, and no one else in the world could have done it, and if the price tag is \$56bn, that’s the price tag,” said one former Tesla executive. “He’s Ronaldo, he’s Messi. He can ask for what he wants.”

Who are the shareholder(s) behind the suit?

The lead plaintiff is an individual, Richard J. Tornetta, who attested in a 2018 affidavit filed in Pennsylvania that he was a “continuous holder” of Tesla shares during the time of the Musk stock grant. Delaware court filings show Tornetta 2019 had sued Pandora and Sirius XM over their merger, whose terms he believed short-changed Pandora shareholders. Tornetta’s Tesla complaint is filed on behalf of all shareholders and is a so-called ‘derivative’ action, a lawsuit brought by a shareholder or group of shareholders. The initial complaint asked for damages to be awarded though the ruling imposed a penalty of “re-scission”, Musk handing back the shares to Tesla.

The Delaware court agreed with the plaintiff that Musk “controlled” Tesla even with just a 20 per cent stake in 2018. As such, the board had to show it struck the pay package through a “fair” process and at a “fair” price, a steep burden it could not ultimately satisfy.

What does the ruling mean for Tesla’s governance?

The ruling “creates a tornado situation for Tesla’s board”, said Dan Ives, an analyst at Wedbush, who believes the board will either appeal against the decision or draw up a new package. Independence has long been a problem at the company, while past efforts to expand oversight by Tesla’s board have yielded scant fruit. Tesla directors include Musk’s brother Kimbal, longtime associate James Murdoch, and JB Straubel, one of Tesla’s co-founders. Robyn Denholm, who has been chair since late 2018, has been a director for a decade. After Musk tweeted he had “funding secured” to take Tesla private in 2018 — prompting the US Securities Exchange Commission to charge him with securities fraud — the board tried to curtail his use of the platform. These efforts have failed: Recent messages from Musk, who bought Twitter for \$44bn in 2022 and rebranded it as X last

year, include opinions on US immigration, handwriting and chickens. Musk receives little or no resistance from those intended to rein him in, former Tesla executives say. “Is there anyone on the [Tesla] board who is showing the slightest bit of pushback on anything?” Philippe Houchois, auto analyst at Jefferies, said the latest saga might spark governance changes. “It is too risky for the board to carry on as it is,” he said. “I think it won’t be rubber-stamping [Elon’s wishes] anymore.” Yet, if the board’s job is to make shareholders wealthier, defenders of the scheme argue that those who purchased shares in 2018 or earlier have been well rewarded. Tesla’s market capitalisation rose 20-fold to about \$1.2tn last year. Even with a recent slide to roughly \$600bn, investors are sitting on a 10-fold return, a better performance than if they had invested in Amazon, Meta or Netflix over the same period. A former Tesla director said: “The board and the investors have made so much money that they almost look the other way.”

<https://www.ft.com/content/a54a8de2-0319-4dc0-863b-66b94c5a78f7>

Case Study 1: Liip – A pioneer in implementing Holacracy

Introduction

Liip, a leading Swiss web application development company, was founded in 2007. Since its inception, efforts had been made to keep its hierarchy as flat as possible, but by 2015, its steady growth had called for organizational development along with the formalization of the company’s operations. Liip’s management team felt changes were needed to increase employee satisfaction and encourage calculated risk-taking. Everyone’s work was completed by the end of the week, but the status quo was never challenged, everything was too informal, and employees had no real sense of accomplishment. When job applicants asked how the company functioned, nobody had an answer: it was working, but no one knew exactly how.

When co-founder Gerhard Andrey learned about holacracy, his firm realized that this self-management system might be exactly what it needed to provide clarity and structure. In late 2015, the company decided to experiment with it.

Liip’s principles:

Purpose over profits, Open over closed, Risk over certainty, Trust over control, Practice over theory, Flexibility over strength, We over me. <https://www.liip.ch/en/culture>

How it works

Liip found that the traditional organizational pyramid, with managers making all the decisions, was too slow for its projects. Instead of a traditional pyramid structure, a holacracy is a series of nested circles. Unlike with traditional management, power is not given to people or positions but to roles and circles. Each circle and role have a purpose, accountabilities, domains, and policies. Distinct, autonomous, yet symbiotic teams work in solidarity to accomplish tasks and company goals. The corporate structure constantly changes, with the organizational chart representing what people are currently doing. All circles have four core roles that make up the basic structure — lead link, rep link, facilitator, and secretary — that ensure the base functions of the circle. Communication between

the circles is clearly regulated and incorporates the principle of separation of powers. If the system fails, it's because its complexity has not been fully grasped.

At Liip, teams could include an entire office and employees often belonged to more than one circle. Each circle covered a different area of the company. There was no limit to the number of circles, and some circles could be contained within larger circles. Circles and roles (the smallest structural elements in a holacracy) were created, changed, and deleted as necessary. Circles were independent and self-governing units with clear responsibilities and every circle had a Lead link, a person whose role included the circle's overall strategy (ensuring a common alignment of purpose within the circle) and resource allocation, including the assignment of colleagues to roles.

Like all aspects of the organization, the remuneration system is transparent, so everyone knows what everyone else is earning and their classification. Every employee has access to the accounting system, which can be used to verify transactions. The highest salary is no more than 2.5 times that of the lowest. The salary gap is thus smaller than at other companies in the same industry, with salaries based on education, experience, and social skills, which are assessed by the individuals met during the interview process. There are no individual bonuses: everyone receives the same bonus — or none at all.

"Our employees see the separation of roles and individuals as a positive thing," explained Andrey. Under this system, it's much easier for employees to put their specific skills to work, polish their social skills, and enjoy new experiences.

So, who was hired?

Liip employed only the best and the brightest and versatility was key. It was not uncommon for applicants to be interviewed by fifteen, twenty, or even thirty people. Everyone had a say in who they wanted to work with, and everyone had a veto right. If even one person had a bad feeling about someone or didn't believe they would fit in, the applicant would probably not be hired.

Most applicants had previously worked for traditional organizations and they had to be ready, willing, and able to adapt to a holacratic organizational structure. This could be challenging, so Liip had an above-average turnover rate. In theory, employees based all decisions solely on the facts, separating people from their roles, but people are not machines and personalities and relationships inevitably come into play. Liip employees thus had to learn quickly not to become personally involved. Moreover, not everyone can handle the freedom and decision-making scope the flat organization structure makes possible. Assuming that level of responsibility is not for everyone, holacracy requires mature, intelligent workers who are committed to growing and learning and who can work independently and handle pressure.

Above all, employee feedback was essential to performance assessment. "It's the feedback that counts, not whether or not a specific task was accomplished. Complete transparency can create a strong unit," explained Andrey. Moreover, the company's popularity among employees, applicants, and trainees was demonstrated by the more than two hundred feedback reports found on kununu.com. Points were awarded on a scale of one to five in areas, such as working atmosphere (4.81), dealing with older colleagues (4.70), equal rights (4.95), and salary or social benefits (4.49).

Part-time employment was rare at traditional Swiss companies, but about half of Liip's employees worked part time. This lack of career pressure often made it easier for them to maintain a healthy work-life balance. Still, Liip had won more than seventy prizes for its software solutions in the service sector, and several of those projects highlighted the firm's spirit of innovation and creativity. Those awards were proof of concept for Liip and further motivated its employees. According to Andrey, "People want to stand on stage for great things in life and when a Liiper realizes that other Liipers are also on stage, it gives them an incredible boost." In Andrey's view, "The benefits of introducing holacracy have outweighed the disadvantages we experienced in the past."

Questions:

1. What role does leadership play in holacracy?
2. Why did the co-founders decide to make this change?
3. Who were the leaders?

Case study 2: Gore-Tex (www.gore.com)

The Enterprise

Bill Gore, a chemist at DuPont for 17 years, worked on polytetrafluoroethylene (PTFE), a polymer known for its acid resistance, abrasion resistance, temperature stability, and excellent insulating properties. Despite these advantages, PTFE had a significant drawback: it couldn't be processed using traditional techniques like injection molding. Although a team at DuPont applied for a patent on PTFE in 1937, the challenge of making it usable for industrial applications persisted, and the team eventually dissolved after another group developed a thermoplastic copolymer that could be processed more easily.

Despite this setback, Gore remained passionate about PTFE and continued experimenting with it in his home laboratory. He believed the material's superior insulation properties had untapped potential, particularly for insulating computer cables. However, when he proposed this idea to DuPont, the management dismissed it, citing a lack of market opportunities and high production costs. Undeterred by this rejection, Gore decided to pursue his vision independently, founding a company with his wife, Vieve, in 1958.

Initially, the business struggled, and it seemed DuPont's managers were right. The primary issue was still the processability of PTFE. By the late 1960s, as the cable business continued to decline, Gore and his team sought to reduce material costs while maintaining product quality. They experimented with stretching PTFE to enclose air within its molecular structure, a challenge considered nearly impossible. Against the odds, they succeeded, producing a microporous membrane from PTFE, for which they applied for a patent in 1970.

Gore encouraged his employees to brainstorm potential applications for this new material. One of the most significant breakthroughs came in textiles, where the company developed Gore-Tex fiber in 1972. By 1976, they secured their first commercial contract for Gore-Tex fabric, marking the debut of the first waterproof and breathable textile.

This innovation fueled rapid company growth, and Gore-Tex became synonymous with high-performance outdoor apparel, famously marketed with the slogan “Guaranteed to keep you dry.” The material’s capabilities were proven in extreme conditions, such as the 1990 crossing of Antarctica.

The semi-permeable PTFE membrane proved versatile beyond textiles, with applications in medicine, such as vascular prostheses, and electronics, including cables for NASA’s ground control equipment. Gore’s technological innovations led to the company’s rapid expansion, with revenues doubling every three years from the 1970s onward. By today, Gore employs around 6,000 people across 45 sites worldwide, generating over USD 1.6 billion in revenue. The company has been recognized multiple times as one of the best employers, including in the USA, Scotland, and Germany.

Areas of application

Fabrics

Gore is best known for its work in textiles, particularly through the Gore-Tex membrane. While the company doesn’t manufacture fabrics, it supplies this crucial material to the textile industry for products like sportswear, footwear, and tents. Gore collaborates closely with manufacturers, offering expertise in membrane processing to ensure high quality and prevent leaks, which could harm Gore’s reputation.

Electronics

Gore’s original business focus was electronics, where it partners with clients to develop advanced cable systems for high-tech applications. The company leads in high-frequency signal transmission using fiber optic and copper cables, serving industries such as computing, aerospace, and telecommunications.

Medical Technology

The microporous structure of PTFE allows it to integrate with human tissue, reducing the risk of rejection. This makes it ideal for medical applications, including artificial vascular grafts, ligaments, and tissue bridges.

Further Applications

Gore also produces sealants, packing fibers, and weaving yarns for various industries. Its filtration products, like Gore-Media® filters, help reduce toxic emissions. In the automotive industry, Gore materials are used in headlamps, sensors, and batteries.

Gore’s corporate philosophy and culture

“To make money and have fun” this is Gore’s overarching mission. It sounds very American and is a good expression of the paradox of giving employees considerable scope for self-realization on the one hand while never losing sight of the financial targets crucial to the enterprise on the other. Four principles support this overarching vision:

Freedom: Every employee should have the opportunity to develop according to his inclinations and strengths and to grow with his self-selected tasks.

Self-commitment: People are not hired for predefined tasks. Says Gore, “We organize around voluntary commitments whenever possible. There is a fundamental difference between a voluntary commitment and an order.”

Waterline: This principle serves as a guideline to prevent risky activities that could threaten the survival of the enterprise. The company is compared here to a ship that has to be kept afloat. Drilling into the hull above the waterline is allowable, even desirable, in the search and development process. When drilling under the waterline, however, the advice of an experienced “sponsor” has to be sought.

Fairness: The enterprise expects its employees to be fair to each other, suppliers, and customers.

Gore's organization

Bill Gore's objective was to permanently maintain the working atmosphere of a research and development team. When the company reached around 200 employees, he noticed that he no longer knew everyone personally. He feared the loss of the informal organizational structure to which the enterprise owed its identity. The founder, therefore, attempted to build a flat organizational structure in which there were no authority-based hierarchies or preset channels of communication.

He organized the company according to the following principles:

Principle of cell division:

- No facility larger than 150 employees.
- “Clusters” of adjacent facilities (e.g., four plants in Munich, all in the same area).
- Minimum of shared infrastructure (each plant has its canteen; only the mainframe and central telephone are shared).

Lattice organization

- No traditional hierarchies (no titles or ranks).
- Minimum of formalities.
- Direct communication (face-to-face) within the facility.
- Communication beyond the units by means of an exemplary communication network (Gore-Com) with voicemail.
- No official channels.
- No organizational charts, no job descriptions, no function diagrams.
- Organization by shared voluntary commitments that also extend beyond plant boundaries (amoeba concept).
- Professional finance system as a regulatory device for the chaotic-creative work (discounted cash flow, p/e ratio, sales per employee, return on equity).

Employees are called “associates”, and they form the basis of the hard-to-capture self-organization processes. Associates are given projects that align with their skills, and are advised by the “sponsors” (superior managers). Gore employees have the choice of accepting the projects if they are in line with their inclinations, but they can also hand them

back without losing face. Consequently, the acceptance of commitments by the individual employees is crucial, and their commitment to the team's goals is strongly encouraged.

Exercises

1. How do you think Gores' organizational structure affects innovation?
2. What are the pros and cons of Gores' organizational philosophy?

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“Culture eats strategy for breakfast.”

Peter Drucker

Peter Drucker didn't mean that strategy was unimportant — rather, a powerful and empowering culture was a surer route to organizational success. People are influenced by the culture in which they live. A child learns, for example, what norms, values, and behaviors are common in the family. The same thing happens to employees working for a company. They are taught the important values and norms in the enterprise.

View from the Media: Tesla's Technoking gives lessons on performance reviews

Elon Musk's firings raise questions on how to assess staff and eliminate bias
Financial Times, May 13, 2024, by Anjili Raval

To hold on to your job you have to be “excellent, necessary and trustworthy”, according to Elon Musk. But does the Technoking of Tesla even pass his own test? The maverick chief executive of the electric-car maker and co-founder of companies including SpaceX has incited lawsuits and SEC investigations.

There are regularly sudden shifts in direction at his businesses because of his autocratic decision-making style and the working culture is so demanding it leads to high burnout and staff churn. Musk's own employees and investors may conclude there are enough reasons to show him the door, but unluckily for them he's the one in charge. Yet Musk's remarks raise a more serious question — what is the correct and fair way to judge worker performance? And can you ever truly eliminate manager bias?

Big companies often turn to performance reviews to provide a structured way to give feedback, help employees understand their strengths and weaknesses and provide career development advice. In theory, they are a chance to recognise and reward good work while motivating staff and boosting morale.

Employees too can air grievances. But they can be time-consuming and stressful, particularly if they are not used to think meaningfully about future development. While a company may strive to be meritocratic, these reviews can be highly subjective and often reflect personal biases.

New Gallup data is revealing. Only 2 per cent of human resources chiefs from Fortune 500 companies that were surveyed by the polling and consulting group strongly agreed their performance management system inspired employees to improve. Employees were just as negative, with only one in five saying the reviews were transparent, fair, or led to better performance. It is not surprising that many union members do not trust performance appraisals. Reluctant and accidental managers — a staggering proportion of the total according to the Chartered Management Institute — are not likely to rush to do them either. In response, some companies are choosing to replace reviews with more frequent and informal check-ins between managers and employees. But even when organisations have scrapped performance ratings, they have found a need for some form of annual documented evaluation to help them make decisions on issues such as promotions and pay raises, research by McKinsey shows.

www.ft.com/content/4a1a2e3f-a321-4c08-8566-ab6a1dac1a24

7.1 Importance of Corporate Culture

7.1.1 Concept of Corporate Culture

An enterprise's culture can be defined as the totality of values and norms that determine what behavior is acceptable or unacceptable. Values and norms are frequently taken for granted and act as an invisible influencing factor, a system of informal rules. Values and norms are similar constructs, but there are also differences between them. Norms are tailored to specific situations and are, therefore, of limited validity. Norm-compliant behavior, e.g., adherence to management principles, is enforced by sanctions. Values are more fundamental than norms and are not subject to any sanctions. For example, they relate to how employees within the enterprise are supposed to see the environment and give the behavior a general direction (Schein/Schein 2019, 3ff.). A characteristic feature of corporate culture is its inward orientation. Unlike the corporate identity, which is intended mainly to impact customers, suppliers, or investors, the corporate culture influences employees' behavior. If the culture is strong, individual behavior aligns almost automatically with what the employees themselves sense to be their enterprise's "specific culture".

The culture of an enterprise is embedded in the cultural standards of its industry and of society or a country (Lewis 2000, 8ff.). It is plausible to assume that cultures from the environment influence the corporate culture in a certain way. From an internal perspective, the corporate culture is strongly determined by the individual behavior of managers and employees and by group dynamics (Meyer 2024, 69ff.) For example, the analysis of the behavior of the managers and employees on the level of the group (e.g., group norms, group structure) and of the individual (e.g., motivation, skills) are key prerequisites for capturing the collective phenomenon of "corporate culture". The research field of orga-

nizational behavior explicitly studies the effects of the behavior of individuals, groups, and structures on behavior in enterprises (Buchanan/Huczynski 1997, 1; Robbins 2001, 25; Schermerhorn et al. 2004, 3ff.). Although the remainder of this chapter focuses on the enterprise's point of view, it must be remembered that all three perspectives are needed for a full understanding of the management of companies. Companies cannot be properly understood if, for example, employee motivation, performance, and satisfaction are ignored.

7.1.2 Corporate Culture and the Magic Trilogy

When analyzing an enterprise, culture should not be considered in isolation. Together with strategy and structure, it forms a magic trilogy that can only be understood holistically. The optimum fit of the three basic components must be seen as a key task of corporate management. The interactions between strategy, structure, and culture overall make up the "strategic fit". There is no single specific combination of the basic factors that lead to success. Very different ones can show promise as they are sufficiently compatible: for example, an innovation-oriented strategy will be condemned to fail if the structural prerequisites are lacking and the culture hampers innovation in the company.

Example

Corporate Culture at Hilti AG as a Competitive Advantage

Hilti AG of Liechtenstein has been working intensively on a Hilti corporate culture since the mid-1980s. Its prowess in the market and, for example, the award of the Carl Bertelsmann Prize (2003), prove that people really are central in the company. Employees' skills are regarded as the most important opportunity for competitive differentiation. The key to success can be reduced to the formula that employee satisfaction leads to customer satisfaction, from which good business results in turn. According to Michael Hilti, Chairman of the Board of Directors, personal development and corporate growth form a single unit.

Enormous persistence is required in order to embed an employee- and customer-oriented corporate culture. Hilti carries out global culture training in which the Executive Committee and Board of Directors also participate. It is of great importance for managers to act as role models of the Hilti values "courage, integrity, teamwork, and commitment." It is emphasized at Hilti that culture is not to be seen just as a soft management factor, it is also measurable. The Hilti Group conducts a global survey of employee and customer satisfaction every year. Consequently, the cultural performance goals can be checked.

As in many companies, art is an integral part of the corporate culture at Hilti. Modern art is visible practically everywhere at Hilti, and exerts a strong invisible influence on employees and non-members of the company. ◀

Many assumptions can be made about the relationships between the three basic components. Meyer (2024) developed theoretically well-founded speculative ideas that stimulate thinking. Like several other authors, he starts by assuming the primacy of strategy. If the

corporate culture is the (mental) rope on which the members of the enterprise pull, the rope requires a direction to pull on and that is determined by strategy (Hinterhuber 1992). Culture must, therefore, fit the strategic direction of thrust, not vice versa.

This and other assumptions are not uncontroversial. One contrary position is that the demand for a fit of strategy and culture overlooks the fact that a strategy-compliant culture cannot be “managed” in the traditional sense. Managers will find it very difficult to influence the culture in a large company because cultural phenomena grow over the long term across generations. We will discuss these problems in more detail when we come to the question of shaping a corporate culture.

7.2 Structure of the Corporate Culture

“Culture is simply a shared way of doing something with a passion.”

Brian Chesky

The stories that circulate in most organizations are normally centered on the following themes: experiences with the firm founders, infringements of the rules, legendary careers, redundancies, employee transfers, reactions to earlier mistakes, and how people get on in the organization. These stories anchor the present in the past and lend legitimacy to current practices. A recurrent series of actions (rituals) express the organization’s core values and most important goals and show which people are considered important and which ones the company could do without. Examples of tangible symbols are the fixtures and fittings of an organization, the types of cars driven by top managers, the size of the offices, the elegance of the furniture, the special privileges of senior executives, social areas for employees, canteens, or reserved parking spaces.

Organizational units use language as an identifying characteristic of the members of a corporate culture or subculture. Over time, organizations develop their own expressions for certain pieces of equipment, key positions, suppliers, customers, or products that are associated with the work. By learning this language, members signal that they have acquired the corporate culture and contribute to its preservation.

Example

Burton and the role of the founder

In the sports industry, several companies with an outstanding corporate culture have been created and the impact of the founders is obvious. The snowboard company, Burton, created by Jake Burton Carpenter in Burlington, Vermont, has always been marked by particular cultural ingredients. Jack Burton is a pioneer in the snowboard industry and always spoke the language of the athletes, exchanged ideas about how they invented snowboarding and the board structure and enjoyed boarding with employees, friends, and fans. When the employees learned of Jack Burton’s passing in 2016, they gathered in front of the company building in Burlington and decided to do what Jake Burton would certainly have done on such a winter day: go snowboarding. ◀

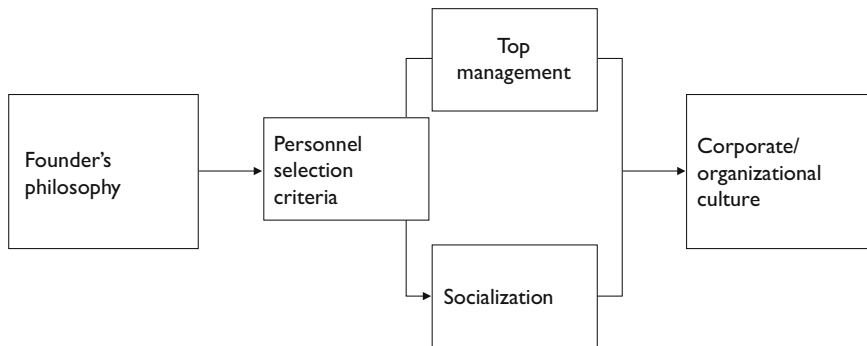


Figure 7.1 Development of a Corporate Culture

We have to ask at this point how corporate cultures can arise and be preserved (Schein/Schein 2019, 123 ff.) The following development model can be used for the purpose of simplification (Robbins 2001, 604-605). The corporate culture is originally derived from the company founder's philosophy. This philosophy has a strong influence on the criteria for personnel selection. Top management's actions provide the general guidelines that define acceptable and unacceptable behavior. Employee socialization depends, first, on the company's success in selecting personnel whose values fit those of the organization and second, on top managers' preferred socialization methods (Figure 7.1).

Socialization is the term for the way an employee adapts to the corporate culture. This process is divided into three phases: pre-entry, entry, and metamorphosis:

- The pre-entry phase comprises the learning that takes place in the period before the new member joins the organization.
- In the entry phase, the employee comes to know the organization's style and realizes that reality may differ from his expectations.
- In the metamorphosis phase, relatively permanent changes take place. The new employee masters the requirements of his job becomes accustomed to his new roles and adapts to the values and norms of his work group (Hudson, 2002, 46ff.).

This three-step process feeds back into his work productivity, commitment to the organization's goals, and final decision about staying with the company.

7.2.1 Levels of a Corporate Culture

An attempt to describe the structure of the corporate culture more precisely shows that its core first of all consists of a set of fundamental values (Schein, 1984). These are the prerequisites and assumptions that are taken for granted and underpin day-to-day thinking and action without employees being aware of that fact. Such basic assumptions are, for example, formed about the environment; in other words, about how people within the en-

terprise are supposed to view that environment. Is it considered threatening, challenging, beatable, overpowering, or benevolent? The question of how the enterprise operates in the market is essentially shaped by this basic opinion of the environment. However, it should be remembered that these opinions are formed in dealings with the environment; in other words, they are not entirely objective impressions.

Another example of the fundamental values relates to the conceptions of truth in an enterprise. On what basis do people decide whether something is true or correct? Does the company build on tradition, as in “That’s the way we’ve always done it?” Or do people trust in authority? “Let’s ask the boss.” Faith can also be placed in science: “Rigorous tests have proven that ...”

These mostly unconscious and spontaneously developed values are, in most cases, not isolated from one another but form a more or less consistent pattern. To understand corporate culture, it is therefore essential to try to capture the whole picture — the “worldview”. This “worldview” is expressed in a system of norms. In other words, the fundamental values manifest as maxims, ideologies, unwritten rules, or prohibitions that the employees share more or less. Many enterprises take up such latent orientation models and put them into writing in a corporate mission statement or use them to formulate management principles (Schermerhorn, 2004, 203).

Together with the values, the norms focus the priorities for behavior in the enterprise, shape perception, and help interpret external and internal behavior. Values and norms are ultimately reflected in the third level: symbols. Symbols preserve and further develop the hard-to-capture, barely realized values and norms and pass them on to new employees (Laloux 2014, 233). They represent the visible part of the corporate culture, which can be understood only in conjunction with the underlying values and norms.

Slogans and graffiti can be systematically analyzed to assess the corporate culture:

Slogans (guiding principles, mottos, buzzwords, etc.): Daimler (Nothing but the best), AGIP (Loyal friend of the four-wheeled man!), or IBM (Remember the customer pays your salary)

Graffiti

- There are two types of employees: those who sign and those who resign.
- As long as the dividend’s good
- Make savings at all costs.
- If you’ve lost the overview, you should at least have the courage to make a decision.
- Initiative is only a lack of discipline.
- Operational chaos fills mental blanks.
- Be friendly to every idiot you meet, he could be your boss tomorrow.

7.2.2 Symbols of a Corporate Culture

Every culture develops its own system of symbols: Its stories, myths, rites, and ceremonies express fundamental values and norms. They are so familiar to an insider that he often fails to notice them.

In any culture, language is one of the most important opportunities for expression. Every enterprise has its “jargon” that is understood only by the initiated. It is this informal, oral communication that conveys a company’s values and norms (Wiedermann, 2003, 192f.). Instead of ten pages of management principles representing the official version of management actions, stories often say more about what is actually going on in an enterprise. They often develop a life of their own, too. When they are told and retold, changed and updated, the content becomes increasingly removed from the event from which the story originated. Stories easily assume the character of myths, i.e. idealized, heightened descriptions.

One story from Hewlett-Packard illustrates that employees are the enterprise’s most important capital. It communicates how genuine this value was when Hewlett-Packard was exposed to financial turbulence. While virtually every other company in the industry had made personnel redundant, Hewlett-Packard asked employees to take one day’s unpaid leave every fortnight. Thanks to this measure, redundancies were avoided. Practically all employees were affected, because everyone had to take a pay cut, but not a single employee had to bear the entire cost of the fall in corporate performance. This story conveys an important message: Hewlett-Packard avoids redundancies for a lengthy period of time and tries to keep the whole corporate team together.

Example

Netflix Culture — Seeking Excellence

Great entertainment thrills and inspires. It sparks laughter, tears, gasps and sighs, stirring our emotions and nourishing our spirit. Ever since humans learned to speak, storytelling has been essential to our happiness.

At Netflix, we aspire to entertain the world—creating great stories from anywhere and offering greater choice and control for people everywhere. To help us succeed, we’ve created an unusual employee culture.

- What makes Netflix special is how much we:
- Encourage decision-making by employees
- Share information openly, broadly and deliberately
- Communicate candidly and directly
- Keep only our highly effective people
- Avoid rules

The thing we most value is working with talented people in highly creative and productive ways. That’s why our core philosophy is people over process, and why we try to bring people together as a dream team. Of course, any growing business requires some process and structure. But with our people-first approach, we can be more flexible, creative and successful in everything with do.

Source: Netflix. “Netflix Culture — Seeking Excellence.” Netflix Jobs. Accessed September 7, 2022. ◀

The importance of stories and myths, which are also told in the form of anecdotes and legends, has been proven by socio-psychological research (Bordiga/Nisbett, 1977). In forming judgments, people rely principally on information about concrete events, while broad-based observations are less important. When, for example, a friend has problems with his automobile, a person will tend to rate the brand as poor. This assessment will not be revised even if the company can prove by statistical data that the friend's problems are an exception.

Another part of the visible culture elements is rites and ceremonies. Rites normally take place at a certain time and place and within certain roles. They can be classed according to different events. For example, there are initiation rites when joining the enterprise such as the induction day or welcome by the corporate management. Another type is separation rites. The key issue here is whether a departure is celebrated or the person who has given notice is isolated. Reinforcement rites are also well-known as events where the salesman of the month is elected.

Similarly to rites, ceremonies are carried out at certain events. They express the habits and customs of the culture and serve chiefly to release emotions. Examples of this are Christmas parties or company outings.

Finally, the visible aspects of the corporate culture include the architectural design of the rooms and buildings, the dress code, and other similar features.

7.3 Types of Corporate Culture

The division of the corporate culture into levels and elements prompts the question of how these factors interact in concrete terms in an enterprise and shape a "cultural model". It is not easy to identify the corporate culture as a whole, because no systematic method exists for doing so. Typologies can be used as a tool in such processes of discovery.

7.3.1 Deal/Kennedy Typology

A number of typologies have been developed to describe the culture. Probably the best known of these is by Deal and Kennedy (1982), which is based on everyday experience in a particularly illuminating way. Deal and Kennedy classify corporate cultures on the basis of two characteristics:

- The period that normally elapses before feedback is provided on whether people are doing a good or bad job. Consequently, this is also known as the speed of feedback from the market.
- Risk appetite, i.e. the level of risk normally associated with an individual transaction.

The two characteristics are divided into two extremes, i.e. low and high risk and slow and rapid feedback, resulting in a total of four types:

An enterprise with a tough-guy, macho culture is a world of individualists. It does not call for team players, but for stars with great ideas. Such characters are willing to take high

risks, and at the same time they expect rapid feedback on their business decisions. Examples are advertising agencies, film production companies, and marketing departments in large companies.

Low risk and rapid feedback form the background of the work-hard, play-hard culture. Here, the emphasis is on an external orientation that is based on the idea that the environment is full of opportunities: you just have to use them. Examples of this type of culture are computer manufacturers, the automotive industry, and sales departments in large companies.

The third type, the bet-the-company culture, is frequently observed in situations to which high risk and slow feedback are attached. Examples here include aircraft manufacturing, the production of complex machinery, or research and development in large companies. It costs a great deal of money to develop new models, and it takes a long time for the enterprise to know whether they will be a success. Wrong decisions are a long-term threat to an enterprise. Everything is geared to taking the right decisions.

Frequent constraints for the fourth type, the process culture, are low risk in individual decisions and little feedback about whether a job is good. Examples that can be cited are check processing in a bank, accounting in large companies, insurance companies, or tax authorities. Everything focuses on the process, the perfect and discreet completion of the work; the overall goal plays a secondary role.

Although Deal and Kennedy see a starting point for the rough classification of entire companies in these four types, they acknowledge the existence of departmental subcultures that can easily be in opposition to one another. They believe that enterprises that are successful in the market display an intelligent mix of the best elements of the four cultures.

7.3.2 Goffee/Jones Typology

Based on their research, Goffee and Jones created a typology distinguishing four corporate cultures, which they developed based on the criteria of solidarity and sociability (Goffee/Jones, 1997).

The networked culture is characterized by high sociability and low solidarity. In these enterprises, employees are seen as members of one big family or as friends. The members support each other willingly and pass on information openly. However, the emphasis on friendly relationships can lead to acceptance of poor performance and the development of cliques. Examples of networked cultures are Unilever and Heineken. Heineken, for example, tries to preserve a typically friendly climate similar to that of a family business despite its size.

A corporate culture with low sociability and high solidarity is defined as materialistic (the mercenary culture). These organizations are not only very goal-oriented, but also aim to destroy the competition. Concentration on objective goals reduces damaging, political behaviors to a minimum. The downside of such corporate cultures is that their treatment of employees whose performance is discovered to be poor is nothing short of inhumane. Enterprises with a fragmented culture have both low sociability and low solidarity. Commitment focuses primarily on the individual member and his work tasks. Employees identify very little or not at all with the organization, and employees are assessed solely on the basis of the quality of their work and their productivity.

The disadvantages of this corporate culture lie primarily in an overtly critical attitude toward others and a lack of collegiality. Fragmented cultures are often found in universities or law firms. The individual members make their mark through their own performance, such as research work, teaching, or personal success in litigation. Communal cultures show high sociability and high solidarity. Both friendship and performance are considered very important so that a sense of belonging is created; nevertheless, strict concentration on goal fulfillment is sustained. The management is often charismatic and knows how to spark people's enthusiasm so an almost "cult-like" work atmosphere sometimes develops. The disadvantage of these corporate cultures lies in the fact that they often demand a person's full time and energy.

A comparison of the current culture with strategy determines whether a culture is strategy-compliant. The better the fit, the more likely it is that the company will be successful. This applies on the condition that the strategy is correct, i.e., adapted to environmental developments. The status of typologies should not be misjudged. A typology is a tool to be used as a first step to sorting day-to-day experience. That it is always a simplified approximation is both its value and its danger. The rich and unique variety of the corporate culture is reduced to certain types. Understanding a corporate culture requires more than simply assigning it to a certain type, however. Those who wish to go deeply into cultural phenomena in business practice cannot do so without conducting a tailored, company-specific study (see section on "Diagnosing corporate culture").

Example

Hewlett-Packard

Hewlett-Packard is often cited as an example of a communal corporate culture. In addition to goal orientation, the enterprise tries to promote a family atmosphere by jointly defining values about how employees should behave and interact with one another. The corporate principles that became known as the "HP way" are as follows:

- We have trust and respect for individuals.
- We focus on a high level of achievement and contribution.
- We conduct our business with uncompromising integrity.
- We achieve our common objectives through teamwork.
- We encourage flexibility and innovation.

Hewlett-Packard's corporate objectives were developed on the basis of these norms. ◀

7.3.3 Competing Values Model by Cameron/Quinn

The competing values model assumes that organizations can be characterized by two key polarities. The endpoints of the two polarities are anchored in values that conflict with each other. The first polarity refers to the organization's structure, which can be flexible or stable. The second polarity indicates the organization's focus: inward (on the processes, actors, and actions) or outward (on the environment). By combining these two polarities, four types of culture can be derived, each resulting from the interaction of two characteristic features (Cameron and Quinn, 2011).

The clan culture in the upper left quadrant is typified as a friendly workplace where people share a lot of themselves. It's like an extended family with best friends at work. Leaders are thought of as mentors, coaches, and perhaps even parent figures. The organization is held together by loyalty, tradition, and collaboration. Commitment is high. The organization emphasizes the long-term benefits of individual development, with high cohesion and morale being important. Success is defined in terms of internal climate and concern for people. The organization places a premium on teamwork, participation, and consensus.

The adhocracy culture is characterized as a dynamic, entrepreneurial, and creative workplace in the upper right quadrant. People stick their necks out and take risks. Effective Leadership is visionary, innovative, and risk-oriented. The glue that holds the organization together is the commitment to experimentation and innovation. The emphasis is on being at the leading edge of new knowledge, products, or services. Readiness for change and meeting new challenges is essential. The organization's long-term emphasis is on rapid growth and acquiring new resources. Success means producing unique and original products and services.

The hierarchy culture in the lower-left quadrant is characterized as a formalized and structured place to work. Procedures and well-defined processes govern what people do. Effective leaders are good coordinators, organizers, and efficiency experts. Maintaining a smooth-running organization is important. The long-term concerns of the organization are stability, predictability, and efficiency. Formal rules and policies hold the organization together.

7.4 Strong and Weak Cultures

Every enterprise has a culture. Sometimes, it is heterogeneous and difficult to perceive; sometimes, it is very strong, compact, and clearly recognizable for employees and outsiders. Several aspects can be considered when assessing whether a culture is strong or weak. Three attributes are particularly important: conciseness, internalization, and prevalence. The attribute of conciseness describes how clearly the corporate culture displays the underlying values and norms.

It is characteristic of strong corporate cultures to communicate clear ideas about what is acceptable or unacceptable behavior in the enterprise. They convey a precise worldview and make the world more comprehensible as a result. Internalization relates to the degree to which employees are convinced of the norms and values. It is characteristic of a strong corporate culture for which the orientation models are not something just to be adopted superficially; rather, they are deeply rooted and function as a natural element of day-to-day activities. Finally, prevalence refers to the proportion of employees who share the same norms and values. Wide prevalence is typical of a strong corporate culture and prevents the rise of competing subcultures. The enterprise is relatively homogeneous in its essence, its qualities.

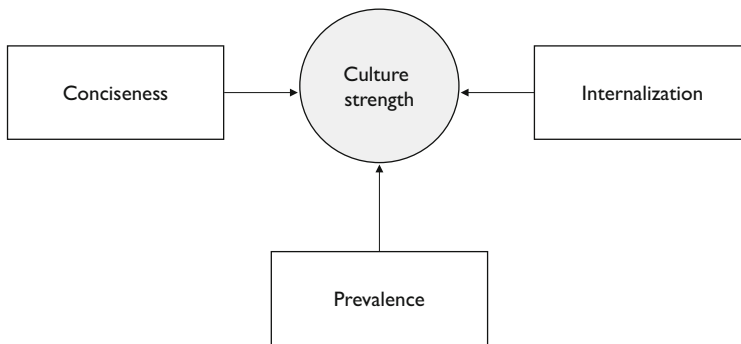


Figure 7.2 Attributes of the Strength of Corporate Culture

7.5 Uniformity of a Corporate Culture

Strong corporate cultures are widely prevalent within enterprises. The culture is perceived as a compact, more or less coherent unity. However, it has to be accepted that this is not always the case in large enterprises (Bracken, 2005, 62).

Subcultures form that are caused by:

- Spatial/geographic separation (corporate center, branch offices in the home country, subsidiaries abroad)
- Organizational structure (finance, research and development, production, marketing)

A subculture is the pattern of values and norms shared by a small minority of an enterprise's members. Subcultures are generally the result of problems and experiences in various branch offices or departments. If they conflict with the company's dominant culture or corporate strategy, they may weaken or undermine an enterprise.

Successful enterprises find that this is not always necessarily the case, however. Most subcultures arise to help the members of a specific group to perform their specific duties. In addition, it is possible for the members of the group to support many, if not all, of the core values of the dominant culture. From this point of view, the corporate culture appears as a pluralistic structure made up of a large number of subcultures. An enterprise can be understood as a diversity of subcultures, symbolized in the chart above by different colors. Not only does the specific color mix of the subcultures have to fit, but also, so to speak, the relationship of the subcultures with the enterprise as a whole. A certain unity in diversity guarantees the culture. The framework envelops the whole and holds it together (Staute, 1997, 121f.).

Consequently, a dominant corporate culture will exist that expresses the basic values shared by the majority of the organization's members. Subcultures develop in certain departments or geographic areas and formulate problems, situations, or experiences shared by the members there. In addition to the basic values, subcultures contain other values exclusive to the members of this unit (Delavallée, 2002, 17f.). If organizations did not

have a dominant corporate culture and consisted only of a large number of subcultures, the value of the corporate culture as an independent variable would be considerably reduced because there would be no uniform interpretation of acceptable or unacceptable behavior. The aspect of shared meaning makes the corporate culture an extremely effective tool for directing and shaping behavior (Cairncross, 2002, 32).

7.6 Effects of Corporate Culture

7.6.1 Positive Effects

The discussion of corporate culture was originally based on the notion that a strong corporate culture was the most important reason for excellent performance. Recently, however, growing numbers of observers are voicing the opposite opinion. Corporate culture, they say, is the main reason for business failure, a breeding ground for stubborn and unreasonable behavior. Both schools of thought, however, assume that culture has a strong influence, whether positive or negative (Schreyögg, 1989, 19ff.).

Compared to a weak corporate culture, the advantages of a solid corporate culture are apparent. First, the need for a few formal rules should be mentioned: Coordination processes are much easier and more direct thanks to the uniform orientation, which is particularly crucial in highly decentralized enterprises. Corporate culture acts as a connecting thread in hard-to-regulate processes. As an example, enterprises should be cited that depend heavily on franchise operation yet still present a very united front (Benetton or McDonald). In decision-making processes, consensus, or at least agreement on a workable compromise, is greatly facilitated by a common language, good mutual understanding, and an accepted company vision.

Example

Patagonia — Let my people go surfing (Chouinard 2016)

Yvon Chouinard, a climber, environmentalist, and businessman, created the company Patagonia in 1973. Patagonia is known for its distinct and influential company culture, deeply rooted in environmental activism, employee well-being, and sustainable business practices. Patagonia offers flexible work hours and remote work options, trusting employees to balance their work and personal lives. The company provides on-site childcare at its headquarters, generous parental leave, and other family-friendly benefits, supporting employees in balancing work and family life. Patagonia's commitment to family support is seen as a model in corporate America. Furthermore, employees are encouraged to take time off to engage in outdoor activities, with the understanding that time spent in nature contributes to personal well-being and reinforces the company's environmental values.

In summary, Patagonia's company culture is defined by its unwavering commitment to environmental and social responsibility, and its culture has not only contributed to the company's success but has also set a benchmark for ethical and sustainable business practices worldwide. ◀

In addition, decisions based on widespread acceptance can be implemented rapidly and effectively. Motivation is another crucial point. The guiding force and shared enthusiasm for the enterprise’s vision fosters high employee motivation and minimizes the tendency to leave the company (security and trust). They also create a high level of identification with the company and are ready to represent the cultural values and norms outside the company. All these advantages give rise to the conviction that enterprises with a strong culture are more than averagely successful. Provided they have a market-oriented strategy. They are thought to work more efficiently and achieve higher returns (Zak 2017).

7.6.2 Negative Effects

The advantages of a strong corporate culture outlined above are by no means as unequivocal and uncomplicated as they first seem. They can soon turn into serious disadvantages, particularly if the environmental conditions change or a new corporate strategy is developed. There are a number of negative effects to be aware of.

Firstly, strong cultures are at risk of constructing closed systems. The vision that is built up and the resulting orientation models can all too readily change into an all-controlling force. Fresh stimulus, criticism or warning signals that conflict with the existing culture risk being suppressed or going unheard. Traditions and rituals that go unchallenged favor this tendency (Table 7.1).

Second, even if new ideas enter the decision-making process, a strong corporate culture can turn out to impede implementation. Enterprises with dominant cultures tend to block new orientations. As long as the issue is to realize ideas that fit in with existing business policy, a strong culture is superior. However, from the moment a fundamental change is needed, such as strategic redirection, a stable and strongly rooted cultural system becomes a problem. The security that strong cultures are so good at delivering is threatened, and the consequence is fear and resistance on the part of the people involved, who, if they are not used to dealing with the unusual, will suffer from an identity crisis. Many a strategic plan has foundered on the rocks of corporate culture. The same applies to mergers. Often, rationally calculated synergies cannot be realized due to cultural incompatibility. Finally, strong cultures tend to generate

Positive	Negative
Action-orientation due to reduced complexity	Tendenz towards closed systems
Efficient communication network	New orientations blocked
Rapid information processing and decision-making	Barriers to implementation
Accelerated implementation of plans and projects	Fixation on traditional success patterns
Low control effort	Group attitude of avoidance
High motivation and loyalty	“Culture-think”
Stability and reliability	Lack of flexibility

Table 7.1 Positive and Negative Effects of Strong Corporate Cultures

conformity. Differing opinions or doubts are set aside in favor of the cultural values. The motivation to maintain the cultural framework is greater than the readiness to conflict with it. By analogy with the phenomenon of groupthink, this can be called culture-think.

In sum, the effects described lead to problems of inflexibility and lack of adaptability. For an enterprise, solid corporate cultures can be defined as invisible barriers to strategic reorientation. Enterprises are increasingly confronted with strategic challenges that force them to depart from the traditional corporate strategy and view flexibility as a critical resource. Given this requirement, a powerful corporate culture can prove an obstacle. In the case of mergers, the disadvantages of strong cultural “incest” become evident.

These are instances of closed systems that gain legitimacy through their rituals, behave in a self-satisfied manner, are resistant to innovations and criticism from outside, and write and live by their codes (e.g., the case of a large Swiss bank where the military structure was accompanied by the associated cliques). Such closed systems find it challenging to open up, change, merge, or even emerge in the event of a corporate amalgamation. Such cultures perceive mergers as a loss. They think of sacrifices and develop an astonishing resistance to new cultural stimuli; they internalize thinking between a winning and a losing side.

7.7 Shaping a Corporate Culture

Too many companies are made of steel, cement and rules. The only thing that helps is dynamite or a serious crisis.

N. Hayek

7.7.1 Managing the Corporate Culture

The serious effects arising from strong corporate cultures raise the question of what an enterprise can do to avoid the negative effects and reinforce the positive ones. The experts differ on this question.

On one side are the culturalists. They see corporate culture as an organically grown, fixed orientation system that cannot be touched by any deliberate act aimed at change. According to this view, managers have to regard culture as a hard fact. The recommendation in this case is simply to homogenize culture, strategy, and structure in concrete application. This conclusion is sobering, particularly concerning the potential adverse effects highlighted above.

On the other hand, culture managers champion a completely different viewpoint. They insist that anything is possible and instruct managers in producing “excellent corporate cultures” with the help of guidelines. This is, without a doubt, a somewhat superficial position, as it denies there is a difference between a cost accounting system and an orientation model. Corporate culture is a complex value system and behavioral repertoire that grows without planning and cannot be changed simply by flicking a switch.

A third position posits that an enterprise’s culture is accessible to change. People can realize their values and norms, think about them, and, if appropriate, exchange them for others. Cultures, on the other hand, are slow-moving phenomena because of their develop-

ment and complexity and can, therefore, only be changed by utilizing a long-term learning process by the organization’s members. This third position believes in a limited action program and can be described briefly as a course correction. It attempts to break up the hidebound orientation models of corporate culture by targeting actions and introducing fresh stimuli. The discussion below is based on this perspective.

Changes in corporate cultures have always taken place from time to time. The typical six-stage course of such changes can be described as follows:

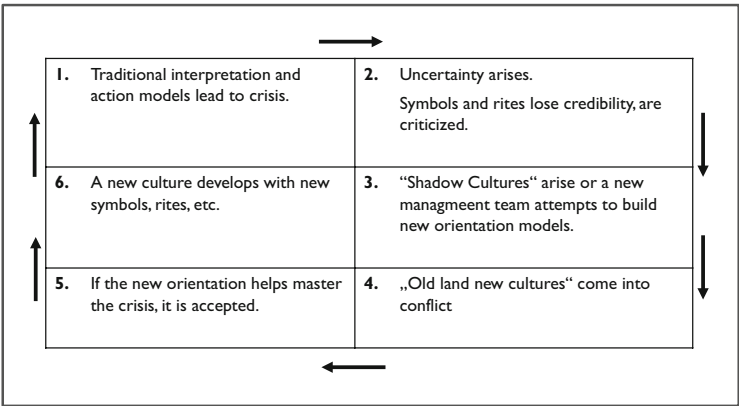


Figure 7.3 Typical Course of Culture Change

The starting point of cultural change is always conflict. The traditional interpretation and action models lead to crisis and are unsuccessful. Uncertainty spreads, and doubt is cast on the symbols and rites, which are criticized and lose their allure. Latent “shadow” cultures that have previously gone unnoticed now become visible. In some cases, a management team that has been replaced tries to outline new orientation models from the outside in, as it were. At this point, the conflict between the old and new cultures becomes virulent, and a power struggle flares up. If the crisis can be mastered, and if employees attribute this success to the new orientation, the latter will be accepted. In most cases, this is tricky because, as a rule, when a new culture is introduced, it is accompanied by a redistribution of resources. Those favored by the old culture typically develop huge resistance and undermine the new “worldview” as far as possible. If, despite everything, the problem-solving potential of the new orientation is acknowledged, a new culture develops, with new symbols and new rites. This continues until another crisis occurs, and the cycle starts again.

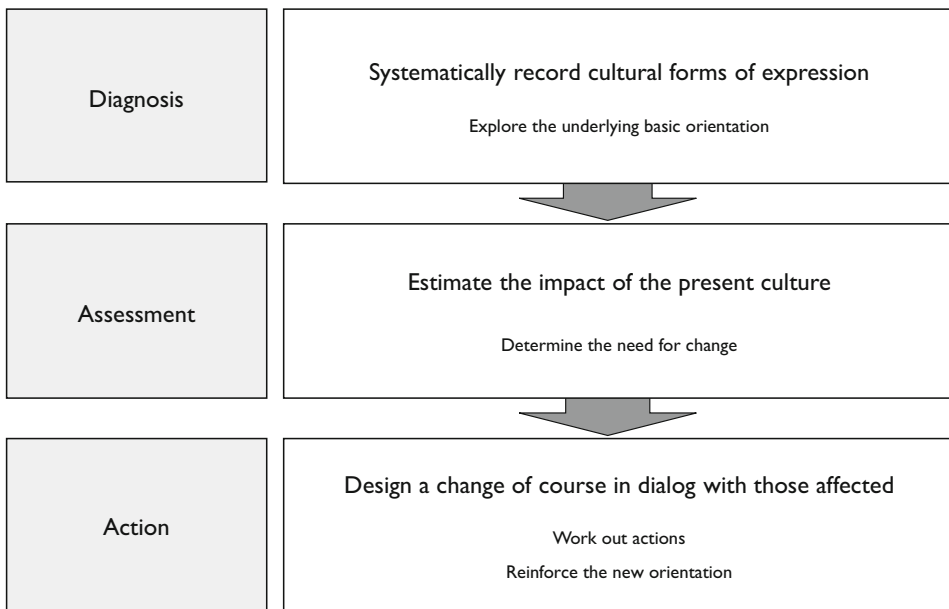


Figure 7.4 Phases of Culture Change

7.7.2 Phases of Culture Change

The following description reveals the typical process of a change in corporate culture. If a company is attempting to initiate such a process actively, then as a rule, it will not wait until a crisis breaks out. Instead, it will try to initiate a preventive course correction (Schein/Schein 2019, 103 ff.). This usually consists of three phases: diagnosis, assessment, and action.

You need to be very closely acquainted with a culture before thinking of changing it. Therefore, any useful development project inevitably starts with diagnosing the prevailing situation. It has proved very helpful for this purpose to divide the corporate culture into three levels. An effective way to start is by systematically recording the visible cultural forms of expression, language, rituals, dress, forms of personal interaction, etc. On this basis, an attempt is then made to open up the invisible basic assumptions by means of the values and norms.

This interpretation process should take a holistic approach. Therefore, an attempt must be made to identify the pattern or Gestalt of the culture in question. Typologies can be used as an orientation tool for the diagnosis. The principal difficulty here is that the enterprise members themselves are not normally able to describe the corporate culture because it is not consciously experienced and reflected.

Nevertheless, the culture can be derived only in dialog with them, using the entire methodological toolkit. The main focus of the diagnostic tools should be on individual interviews and group discussions, which can even be extended to external stakeholders (such

as suppliers and customers). The results of the interviews and discussions are compared with observations, document analyses, and questionnaire-based surveys. The comparison should reveal inconsistencies and determine overlaps that are then analyzed further. The observations relate to all cultural manifestations, such as language, behavior, or dress. In analyzing documents, both internal and external publications are consulted, including management principles and corporate mission statements (Hofstede, 1980, 1172).

The diagnosis is followed by the assessment. An attempt is made to assess the effects of the culture identified, particularly in light of new and future requirements contained in the strategy. This defines the target profile and serves the actual culture as a benchmark. The comparison shows whether the present culture can cope with the requirements. Studies, such as Kobi (1990, 12), prove that the most considerable discrepancy between the actual and target profile is often manifested in employee orientation.

If the comparison of strategy and culture results in a need for change, the third action phase is carried out. In this phase, it is important to be aware that culture change is an extremely unsettling and frightening process. If this is not recognized and accepted, open or concealed resistance will soon arise and be hard to overcome.

Three groups of actions are distinguished for the development of a strong corporate culture:

- Embodied value systems
Culture lives from its credibility, i.e. not from announcements, but primarily from being actively embodied and from its role-model function. A corporate management team that is not prepared to interrupt a meeting for an important customer cannot expect customer orientation to be embodied further down the hierarchy. Executives have to behave in conformity with the company's values and norms in words (spoken and written) and deeds. Employees who display behavior in conformity with the values should be publicly reinforced for doing so so that they become role models.
- Symbolic management
Important cultural conceits are conveyed by the creation of new symbols. In strong cultures, symbols, stories, or slogans communicate what counts: Their contents reflect the values and norms that prevail in the enterprise.
- Value-based human resources management
Value-based human resources management comprises all process elements; in other words, it is geared towards personnel selection, appraisal, development, and compensation. For example, employees with culture-compliant values are recruited and promoted, or training programs are designed to communicate the enterprise's core philosophy.

Cultural development is not a process that can be prescribed; new values cannot be adopted to order. The orientation to the environment, the acceptance of new assumptions about the environment, and the nature of human actions have to take place in the employees' heads. Otherwise, all efforts are in vain. The entire company has to be convinced that change is needed and motivated to venture into something new. Therefore, it is possible to develop a culture only on the basis of broad participation, and ultimately, culture development is justifiable only on this basis; any other approach is in danger of becoming manipulation.

When undertaking culture change, it should be remembered that management can only stimulate development and that the process as such can only be controlled to a limited extent. Initiating cultural renewal can easily look unplanned, so it is essential and valuable to observe the continuous development of the culture.

Chapter Appendix

Key takeaways

- Definition of corporate culture and of several cultural models.
- Explanation of the effect of cultural differences on interactions.
- Identification of individual and cultural preferences for working practices and demonstrating the use of empathy when evaluating others.
- Analyzing the impact that the leaders, founders, history, and tradition have on an organization's culture.
- Conducting an in-depth analysis of the culture within an organization.
- Identifying strategies that help companies align culture with corporate vision.
- Matching business situations to their relationship with organizational culture.
- Identifying the applicable steps to change corporate culture.
- Understanding the implications of subcultures.
- Explaining the role of leadership in using culture as a tool to sustain a high-performance organization.

End of chapter questions

1. Explain the differences between values and norms.
2. Describe the differences between corporate culture and corporate identity.
3. Explain the sentence: "A corporate culture always has a story".
4. Explain the relationships between the fundamental values and the visible stories, myths, or ceremonies. Do values influence observable behavior or vice versa?
5. Name four symbols that indicate the fundamental values and norms of the company in question.
6. Name two linguistic symbols that indicate the fundamental values and norms of the company in question.
7. Why is it essential for managers to understand their enterprise's culture?
8. A managing consultant says: "When times get harder again, managers no longer talk about culture, but about bread and butter." Discuss this statement.
9. What problems exist in measuring the influence of cultural elements on an enterprise's success?
10. You are asked to record the culture on a visit to a company. Draw up a checklist for this visit that you would use for the diagnosis.

End of chapter discussion: Netflix developed a culture funnel.

After a decade in which Netflix's culture was shared with the public, the discussion about it has continued. Questions about transparency, excellence, and constant feedback are often debated. Interestingly, the employee turnover (11%) was lower than the national average for tech companies, and the voluntary departure was around 3-4%. Furthermore, Netflix employees would recommend the company to a friend (Netflix reviews, Glassdoor, accessed August 10, 2022).

Please discuss the impact of the Culture Funnel (Hastings/Meyer 2020) on hiring high-potential talents.



View from the media and Case Study 1: Rolex makes its cultural revolution

Bilan, June 26, 2023 by David Chokron

The revolutionary features of the brand's new products reveal a radical change in its product approach, a visible part of the Rolex culture. Deciphering a much deeper mutation. Even the lawn exudes excellence.

On the outskirts of Rolex's world headquarters in Geneva, gardeners have tamed nature, driven by a constant concern for chronometric precision. This mastery of landscaping is in keeping with the monumental administrative and industrial complex. A revolution is silently taking place in the shelter of this hermetically sealed double tower of glass and metal. Rolex, the mysterious brand, has begun its transformation.

Rolex has just made the biggest evolutionary leap in its history,” comments Wei Koh, founder of the specialist magazine *Revolution and eminence* grise of the watchmaking press. It was a brand of pragmatic, sporty tool-watches. Now it has become a true luxury brand. Such an observation sounds like a tautology, so spontaneously do we associate Rolex with luxury. However, with its highly industrial nature, the brand made watches that were thought of as technical objects. Not luxury objects whose nature relies on characteristics in order to transcend them.

This elevation demanded an upheaval of Rolex culture, rooted in a quiet, applied quest for excellence. This was part of a Genevan Calvinist vision with pillars of conservatism and formalism. While the brand’s identity is in no way called into question, its incarnation and relationship to the world have been re-evaluated in a way that is no longer subterranean.

A powerful duo

For several years now, Rolex has been undergoing an extremely delicate modernization process. Jean-Frédéric Dufour, CEO of Rolex SA since 2015, belongs to one of Geneva’s most established families, to whom it has provided generals, captains of industry, and notables. Having worked for Chopard and then as CEO of Zenith, he slowly settled into his role at Rolex before skillfully shaking up specific mental barriers that governed the company’s product and managerial approach.

Two successive chairmen of the board of directors have supported his reformist actions. Bertrand Gros, who returned in 2022 to manage the law firm he founded, had recruited Jean-Frédéric Dufour. He was replaced last summer by Nicolas Brünschwig, whose appointment was announced only in the Commercial Register. The man who handed over the destiny of the Bongénie-Grieder family group to the fifth generation is well acquainted with the inner workings of Rolex. He joined the Board of Directors in 2016. Together with Jean-Frédéric Dufour, they are challenging the rigidities of the venerable company with all the more legitimacy because they come from the seraglio, pure products of Geneva’s patrician establishment.

An evening in sneakers

Yesterday’s hermeticism is gradually giving way to contemporary codes in terms of both managerial practices and formal dress. The recent announcement of one authorized day of telecommuting per week — a decision taken with reticence — responds to the need to attract young talent. The abandonment of the mandatory wearing of ties, opposed by some, was expected by most employees. The brand’s latest annual symposium was a major coup. At the Rolex Annual Meeting, every member of staff present received a pair of On sneakers, owned by Ambassador Roger Federer, just before the evening party. The message was clear: all department and subsidiary pundits would have to attend a Rolex party ... in sneakers.

These changes in mentality are also reflected in the brand’s commercial policy. The brand, which has long regarded pre-owned watches as its most powerful competitor, has just created a Certified Pre-Owned (CPO) program dedicated to them. With boutique stocks non-existent for the past two years and the wait for a new Rolex endless, the brand is adapting. And in so doing, it is preempting the consequences of widespread frustration.

A CPO program helps maintain the link between a retailer and the indispensable customer in times of scarcity,” says Brendan Cunningham, professor of media economics at Eastern Connecticut University and author of *Selling the Crown: The Secret History of Rolex Marketing*. This prevents customers from turning away from the brand. Extremely loyal in business, Rolex naturally entrusted the implementation of its program to its most important distributor, the Bucherer Group.

To decipher the significance of these breakthroughs, we need to look back at the history of Rolex. It’s not an easy task, given the brand’s aura of mystery. Rolex is historically a secretive brand; it’s in its nature,” explains Brendan Cunningham. Discretion in business has greatly benefited Switzerland, but Rolex is beyond that.” The company doesn’t give out any information other than through press releases linked to its products and sponsorship activities. Its executives give one interview per decade or so. Jean-Frédéric Dufour’s first — and only — speech since taking up his post dates back to last spring.

Last but not least, having been owned by the Hans Wilsdorf Foundation since 1960, Rolex provides no economic or financial data, leaving observers to speculate. According to Morgan Stanley and Luxe Consult’s annual study on the watchmaking industry, between 2020 and 2022, Rolex saw record sales growth of 47%, to 9 billion francs, for 1.2 million watches produced.

Breaking the codes

This cult of discretion necessarily spotlights products whose evolutions are scrutinized like the tip of an iceberg. The first example is the Yacht-Master 42 RLX, which inaugurates the use of titanium. For unfathomable reasons, the brand had refused to use this metal despite its ubiquity in the industry.

Secondly, the appearance of an Oyster Cosmograph Daytona (ref. 126506) in platinum is a small revolution, as it is fitted with a transparent case-back, a must-have in mechanical watchmaking. It is also one of the features of the third revolutionary novelty. The Perpetual 1908, the brand’s first entirely new collection since 2012, is a dress watch and therefore goes against the grain of the sport chic trend, which has reigned unchallenged in high-end watchmaking for the past five years and of which Rolex is the epitome.

Even more strikingly, its appearance coincides with the demise of Cellini, the collection that has brought together multiple interpretations of classic watches since the late 1960s. Despite an in-depth makeover in 2014, it had not found its audience.

Investing in the future

Like any other company, Rolex needed to reform to evolve with its environment. Paradoxically, success spurred it on. Even the organization of its production was impacted. Stuck at around one million watches produced annually, the brand’s factories are cramped. Its four historic sites, under pressure, can no longer keep up. Even relentless price increases have failed to temper the global appetite for the brand’s chronometers.

The decision announced in December 2022 to build a new production site near Bulle, in the canton of Fribourg, once again took many by surprise. Operating outside Geneva? From Bienne, where have Rolex movements always been made? Unthinkable ... But the

Geneva and Bienne labor pools are saturated. Rather than encourage watchmakers to leave for other brands, Rolex decided to create both a production site and another dedicated to training in its production methods.

“This strategic investment for the brand represents a major element in its long-term development”, declared Jean-Frédéric Dufour when the program was announced. Faced with so much pragmatism and upheaval, the question arises as to what’s next. What are Jean-Frédéric Dufour’s next plans for breaking down barriers? The most far-reaching, but also the most logical in strategic terms, would be the integration of a network of own-name boutiques. Although this is an obvious move in the watchmaking industry, and more generally in the luxury sector, the brand has consistently refused to do so, citing loyalty to its long-standing partners. This is no longer unthinkable at the speed at which the cards are being reshuffled.

Case study 2: IKEA

One man furnishes the world

Ingvar Kamprad, a Swede from a humble background, started IKEA with a vision that has shaped the company into a global powerhouse. Born in 1926 in a rural part of Sweden, Kamprad began his entrepreneurial journey by selling matches to neighbors on his bicycle. By 1943, at just 17, he founded IKEA as a mail-order business, initially selling small items like watches and stockings. Over time, IKEA expanded to include furniture, with a strong focus on affordability, functionality, and style.

Kamprad’s leadership style is both personable and meticulous. Known for his down-to-earth demeanor and aversion to public appearances, he maintained close relationships with employees and paid attention to the smallest details, from the curve of a teacup handle to the color of a Christmas decoration. This attention to detail and emphasis on efficiency — even obsessing over saving a few seconds at the checkout — exemplified his commitment to making IKEA a unique and successful brand.

The IKEA System

IKEA’s business model is a blend of mass production and cost control, all orchestrated with military precision. The company has expanded globally, with 177 stores in 31 countries attracting millions of visitors each year. Despite challenges in the furniture industry, IKEA has thrived by sticking to its principles of affordability and functionality.

The company’s headquarters in Älmhult, Sweden, serves as a command center where ideas are born, and the IKEA culture is nurtured. Here, employees are trained to embody the “IKEA way,” which includes everything from product naming conventions to the precise placement of price tags. This rigorous training ensures that every employee understands and contributes to the company’s mission of providing well-designed, functional home furnishings at low prices.

Rules of Conduct

Kamprad's philosophy and values are embedded in IKEA's corporate culture, primarily through "A Furniture Dealer's Testament," a document he wrote that outlines the company's guiding principles. These principles emphasize modesty, responsibility, and the importance of making mistakes as part of the learning process. Kamprad believed in the power of simplicity and constantly pushed for innovation, encouraging employees to challenge the status quo and find new ways of doing things.

"The fear of making mistakes is the cradle of bureaucracy." And every employee learns: "It is our duty to expand. We can make further valuable contributions to democracy in the future." Extract from "A Furniture Dealer's Testament" by Ingvar Kamprad: "To create a better everyday life for the many people"

- The product range — our identity
- The IKEA spirit. A strong and living reality
- Profit gives us resources
- Realizing good results with small means
- Simplicity is a virtue
- Doing it a different way
- Concentration — important to our success
- Taking responsibility — a privilege
- Most things still remain to be done. A glorious future!

The Product Range — Our Identity

The IKEA product range is at the heart of its identity. The company offers a wide variety of functional and affordable home furnishing products designed to appeal to a broad audience. The focus is always on the "basic assortment," which reflects IKEA's values: simplicity, practicality, and an accessible style that resonates with people of all ages.

This product range is designed to be easily recognizable as typically Scandinavian, even outside of Scandinavia. While the basic assortment forms the core of IKEA's offerings, the company also includes a smaller selection of traditional styles that can complement the primary range, especially in markets outside of its home region.

The IKEA Spirit — A Strong and Living Reality

The IKEA spirit, a key component of the company's culture, is based on principles such as cost awareness, simplicity, and a strong sense of community among employees. Despite the company's growth and the inevitable challenges that come with managing a large workforce, the IKEA spirit remains a vital part of the organization. This spirit encourages employees to help one another, take responsibility, and stay enthusiastic about their work.

Kamprad believed that enthusiasm was crucial for a fulfilling life, and he encouraged his employees to find joy and purpose in their work. This sense of purpose is not just a job but a way of contributing to something larger than oneself, making a difference in the world by providing affordable and well-designed products.

Realizing Good Results with Small Means

IKEA has always prided itself on achieving excellent results with minimal resources. Kamprad believed that wastefulness was a sin and that true innovation came from working within constraints. This philosophy is reflected in the company's product development process, where designers are challenged to create functional and attractive furniture at the lowest possible cost.

By focusing on cost efficiency, IKEA has managed to offer high-quality products at prices that are accessible to the masses. This approach has not only driven the company's success but has also set it apart from competitors who may rely on more expensive solutions.

Simplicity is a Virtue

Simplicity is a core value at IKEA, influencing everything from product design to company operations. Kamprad believed that overly complicated rules and procedures led to inefficiency and bureaucracy, which stifled creativity and progress. Instead, IKEA emphasizes straightforward solutions, common sense, and humility in its business practices.

This simplicity extends to the company's frugal approach to expenses. For example, IKEA avoids luxury hotels and expensive corporate perks, focusing instead on the essentials needed to run the business effectively. This emphasis on simplicity not only keeps costs down but also reinforces the company's identity as a brand that values practicality and humility.

Doing It a Different Way

Innovation is another cornerstone of IKEA's success. The company has always been willing to challenge conventional wisdom and find new ways of doing things. Whether it's developing flat-pack furniture to reduce shipping costs or experimenting with new materials and production techniques, IKEA is constantly looking for ways to improve its processes and products.

This willingness to innovate extends to everyday operations as well. IKEA encourages employees to question established practices and seek out better solutions. This dynamic approach has allowed the company to stay ahead of trends and maintain its position as a leader in the furniture industry.

Taking Responsibility — A Privilege

At IKEA, taking responsibility is seen not as a burden but as a privilege. Kamprad believed that making mistakes was a natural part of the decision-making process and that fear of failure only led to stagnation and bureaucracy. He encouraged employees to take ownership of their work, make decisions, and learn from their mistakes.

This culture of responsibility has been crucial in fostering a sense of empowerment among employees. It has allowed IKEA to remain agile and responsive to changes in the market, while also maintaining a strong commitment to ethical business practices. By embracing responsibility, IKEA has been able to build a company that is not only successful but also socially responsible and forward-looking.

Exercises

1. Use two corporate culture typologies and explain IKEA's culture based on the two.
2. Illustrate how you see the development of IKEA's culture based on the case description.
3. Assuming you took a middle management position with IKEA as your next job, what demands would be made on your management style and what type of employees would you expect?
4. Search on the Internet for an enterprise with basic principles similar to those of IKEA.

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Corporate Development: An InnovativeBird's View

8

“Results? Why, man, I have gotten lots of results! I know several thousands of things that won’t work.”

Thomas A. Edison

A growing number of companies are taking the opportunity to initiate development processes to increase efficiency and effectiveness. Top managers have realized the need to face environmental challenges, such as a changing competitive situation, technological advances, or value change, and see that internal processes should be adapted.

The conscious opening of a firm to the environment requires that operating efficiency be increased through optimizing market and client orientation and developing the company’s structure and culture (= corporate development). Visionary corporate development comprises mutually harmonized measures based on strategic reorientation that initiate structural reorganization and refinement of the management process (Piccot 1999, 46). Furthermore, corporate development can be viewed as the result or object of integrated management requiring rational and socio-emotional consideration of the situation.

View from the Media: How Microsoft spread its bets beyond OpenAI

Financial Times, August 9, 2024, by Madhumita Murgia and Stephen Morris

In all, it took Microsoft’s leadership 10 days of intense work to repair the fallout from the aborted coup. For Microsoft and its investors, the incident was a reminder of how central OpenAI had become to its strategy: the growth of artificial intelligence. Nadella’s decision to bet on the start-up in July 2019, long before its flagship product ChatGPT became a household name, had created one of the tech industry’s most successful partnerships.

Not only did it give the software company a head start in the booming market for generative AI, but Microsoft’s share price has more than tripled since the initial \$1bn investment five years ago, allowing it to compete with Apple for the title of world’s most valuable company and widen its advantage over arch-rival Google. Speaking in a Financial Times interview early last year, Nadella said Microsoft and OpenAI had developed a “mutual dependence”. But in the eight months since the board dispute, the tech giant has worked to execute an AI strategy independent of Altman’s start-up. It has diversified its investments and partnerships in generative

AI, built its own smaller, cheaper models, and hired aggressively to develop its consumer AI efforts. In February, Microsoft announced a multiyear partnership and investment into French AI start-up Mistral; the following month it paid another peer Inflection — led by Google DeepMind co-founder Mustafa Suleyman — \$650mn to license its technology and hire most of its talent; and then in April invested \$1.5bn in Abu Dhabi AI group G42.

<https://www.ft.com/content/7ca3a8a2-7660-4da3-a19e-1003e6cf45db>

8.1 Introduction

Integrating corporate development encompasses aligning a company’s strategy, structure, and culture to drive sustainable growth and improve overall performance. It helps achieve business goals more efficiently and contributes to a more adaptable and resilient organization (Figure 8.1). The main challenge is that strategy, structure, and culture coordination assume a dynamic character and interaction is essential. For example, if a company focuses on innovation as a strategic goal, it might adopt a more decentralized structure to foster creative ideas and quick decision-making. If a firm aims to be customer-centric, it might cultivate a culture that values open communication and flexibility, ensuring employees are responsive to customer needs (Figure 8.1).

The need for a flexible approach stems from the ever-expanding and changing environment that a company is confronted with. In general, two substantial options arise for a firm’s leaders: Either they moderately change direction, which is often difficult due to the complexity of tasks in the environment, or they downsize the system by decentralizing

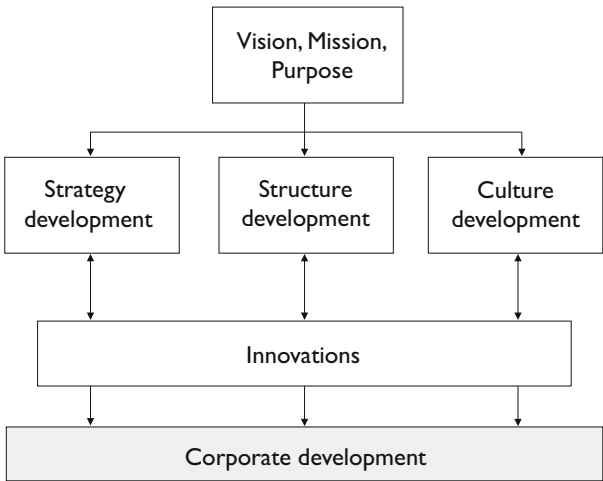


Figure 8.1 Corporate Development and Innovation

specific units, for instance. However, change undoubtedly leads to the need for stability. Stability and prospects are particularly important in turbulent environments but should be interpreted differently here. It is necessary to have both dynamic stability, i.e., stability in development instead of static stability, and action-guiding visions instead of fixed long-term objectives. Strategic ability requires organizational learning, likely resulting in innovative thinking and behavior.

Innovations can be considered the driving force of a significant restructuring process in a company. In fact, they serve as a basis for the further development of existing core competencies and the building of new ones. The innovation process is regarded as an essential dynamic capability that actually permits the adaptation and further development of a firm's competencies. Therefore, the innovation process is a vital element in the realization of a sustainable corporate strategy. Consequently, innovations contribute in a major way to securing profits sustainably and effectively and, therefore, contribute to ensuring a company's viability (Dyer et al., 2019). This objective is reached through developing dynamic capabilities and continually adapting them. Adequate perception of the environment, as well as anticipation of future scenarios, puts great demands on upper management

Examples of companies known for integrated corporate development**Technology:**

Google (Alphabet Inc.): Known for its innovative culture, flat organizational structure, and strategic focus on diversification and technology leadership.

Apple: Apple is praised for its strong brand strategy, centralized decision-making structure, and culture, which emphasizes design and user experience.

Consumer Goods:

Procter & Gamble: Recognized for its customer-centric approach, efficient global supply chain structure, and culture that supports brand management and innovation.

Nike: Noted for its brand strategy, global marketing, decentralized structure for quicker decision-making, and culture that promotes diversity and innovation.

Financial Services:

Goldman Sachs is known for its strategic emphasis on client service, structured yet flexible hierarchy, and a culture that values excellence and leadership.

JPMorgan Chase: Recognized for integrating technology with traditional banking, robust organizational structure, and culture focused on integrity and responsibility.

Automotive:

Tesla: Famous for its disruptive strategy in the auto industry, flat organizational structure, and culture that drives rapid innovation and risk-taking.

Toyota: Noted for its operational excellence, strategic focus on reliability and efficiency, structured yet flexible manufacturing process, and a culture that emphasizes continuous improvement (Kaizen).

Healthcare:

Pfizer: Known for its strong R&D strategy, structured approach to drug development, and a culture that prioritizes innovation and safety.

Johnson & Johnson: Recognized for its broad diversification strategy, a decentralized family of companies, and a culture that emphasizes caring and a global community.

Retail:

Amazon: Famous for its customer-centric strategy, innovative organizational practices, and a culture that encourages experimentation and customer focus.

Walmart: Known for its cost-leadership strategy, efficient logistics and supply chain structure, and a culture that emphasizes cost reduction and broad market accessibility.

Source: (OpenAI., 2024). ◀

The corporate development process requires initiating, planning, and realizing these necessary and sometimes unpopular changes. The author of this book believes that it is quite possible, to a certain extent, to plan and control a company's sustainable development and viability. It is essential to know, how leaders react during a crisis, face uncertainty, and embrace opportunities even as they reduce spending (Gulati 2023, 38-39).

Example
Mettler-Toledo GmbH, a hidden champion

This company serves as an example of the very successful implementation of a visionary business model on the basis of the “fractal company”. It uses the principle of a “self-organizing network”, a scientific expression. During the implementation of this new business model, the biggest problems were the following:

- Overcoming mainly emotional problems with change and alleviating fears by adapting the corporate culture.
- Motivating the company staff and creating adequate conditions.
- Reducing obstacles to make room for employee development.
- The main problem here has proven to be staff motivation and giving them a sense of security.
- Promotion of entrepreneurship so that employees assume responsibility for their actions on the basis of information that is generally available. ◀

Furthermore, it is essential to note that sustainable corporate development differs objectively from the notion of corporate growth, provided that growth is understood as purely quantitative change. The equation corporate development = quantitative growth is incorrect in that purely quantitative growth often leads to unwanted new system status and exceeds the tolerable maximum (Vester 2003, 81-82). This is the consequence of a non-cybernetic development forced into being by external interferences in the firm and its environment. The critical point is easily exceeded if development is defined by quantitative growth. Possible consequences might be, for instance, an inflexible organizational structure that is

difficult to control or products and services that may become so vast and opaque that both clients and staff lose orientation. Negative feedback prevails, and innovative ability diminishes. The resource “flexibility” is fostered inadequately, and the company’s products no longer meet the market’s needs. Objectives like an increase in output, profit maximization, or a sales increase are no longer ideal benchmarks for a sustainable company.

Hence sustainable corporate development is possible only if the company, as a complex system, is managed in a self-regulating way. The application of cybernetic principles, orientating towards living organisms, appears crucial because it means that the main role of management is to generate the impetus for self-regulation and interaction between employees and the environment. The focus of this evolutionary, system-oriented management lies on the viability of a firm and leads to dynamic growth, innovation, and development of the company as a system. However, what are the characteristics of sustainable corporate development?

8.2 Characteristics of Corporate Development

The concept of corporate development has to be regarded as the evolution of the company as a system that is analyzed in terms of the conflicting priorities of external opportunities and threats, and internal strengths and weaknesses. In particular, this area of tension becomes apparent in the market-based and resource-based view of a corporate strategy, a debate that has intensified since the publication of Hamel/Prahalad’s (1994) paper in the 1990s. Their criticism of Porter’s market-based approach leads to elaborating a resource-based perspective that highlights the need for a correlation between a company’s internal capabilities and the external market context in which it operates (Figure 8.2).

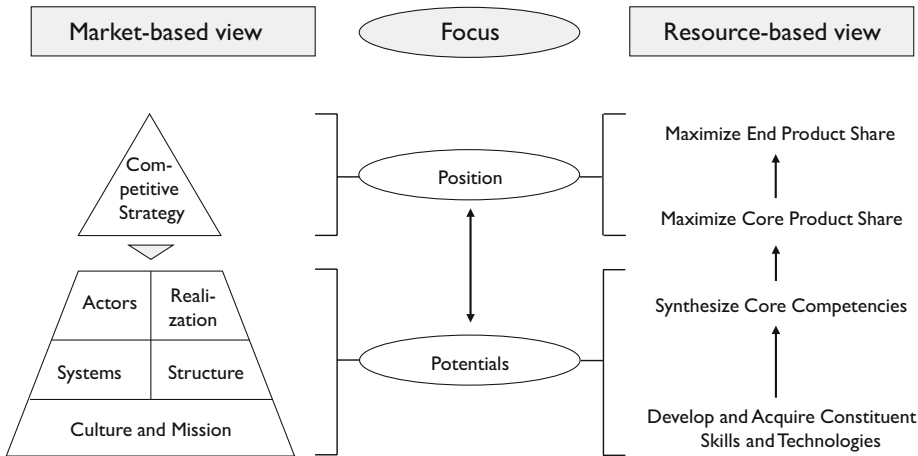


Figure 8.2 Integration Inside-out and Outside-in
Source: Bleicher, 1999, 458

Combining the two schools of thought instead of treating them as rivals can reduce tension. At market entry, for instance, a company needs to choose its development process, one that is based on its capabilities without neglecting the market orientation. This approach to corporate development demands highly on management and staff, which means it is challenging to implement.

Example

3M Corporation

The 3M-Corporation (Minnesota Mining & Manufacturing) has created a competence-based management and structure in a way few other companies have. The competencies are, to a large extent, identical to various technologies that form the basis for the development of new business ideas. Undoubtedly, this part of the corporate process is affected by a competence-oriented process that aims to remove existing resources and develop new ones. For product development within a business unit, 3M has created a process that starts with the client. The first market-oriented stage consists of a meeting of the so-called "Major-Customer Team", i.e. selected customers and representatives of all areas of operation of 3M. The customers outline their specific problems, as well as product requests and requirements. These inputs subsequently result in concrete projects for the laboratory responsible for that product.

Competence-oriented feedback usually starts with the assessment of the outcomes by the responsible members of the project management. In successful cases, the new products will be launched. In addition, the findings are assessed by a "Technical Audit" comprising a group of specialists with different functions in other areas of operation who check transfer possibilities and multi-shift usage. Thus, good ideas can be used in various other product fields. ◀

A firm's capacity to provide additional value for stakeholders when compared with other competitors has an impact on its area of tension.

According to Bleicher (1999, 484f.), corporate development is characterized by the following criteria:

- **Quantity and quality:** Corporate development not only uses quantitative measures as benchmarks but also focuses on a company's skills. Basically, corporate development expresses change by providing long-term benefits and qualified and relative positioning with respect to other companies.
- **Potential values and strategic potentials:** Corporate development aims to change a company's normative and strategic potential.
- **Intended and realized amount of corporate development:** The distinction between the intended and the realized extent of corporate development is decisive since it emphasizes the challenge of designing and managing this process.
- **Manageability and monitoring:** Only to a certain extent is it possible to manage and monitor corporate development. Certain development paths and strategies can be concretized, but depending on a company's level of development, some self-evolutionary non-determinable forces remain active that impact the firm.

A distinction is often made between quantitative and qualitative, or external and internal corporate development. Quantitative corporate development is used alongside external corporate development, measured by turnover, total assets, number of employees, or cash flow, for instance, permitting analysis of change in company size or subdivisions. The company does not grow organically but makes use of others' potential for success, for instance, by acquiring another firm. Priority is given to quantitative change, such as change in turnover, creation of value, or number of employees. Qualitative corporate development, however, is often referred to as internal corporate development. It derives from an entrepreneurial idea resulting in the creation of potential for success and core competencies. Qualitative change can involve strategic reorientation, new learning processes, reorganization, modified assignment of executives, or changes in the product line.

It has been established that a firm's development must focus on its potential, but at the same time, it is possible to identify various levels of potential (Gomez 1993). The reference framework differentiates between the potential of the normative and strategic levels. As a result, it is possible to distinguish the potentials of the general environment, strategic potentials of success, and core competencies. Potential value on the normative level occurs, on the one hand, through value creation for the reference groups and, on the other hand, through systematic communication with the stakeholders. Bleicher (1999) discusses the company's ability to create value and communication potential. The strategic potentials of success aim to provide specific customer value that competitors cannot deliver. In cases where these core capabilities can be successfully implemented on the market, the company has managed to develop a strategic success position (SSP). Strategic potentials of success and strategic success positions are the link between resources and capabilities, as well as the firm's value creation, i.e., its fundamental objective (Pümpin/Ammann 2005, 24ff.).

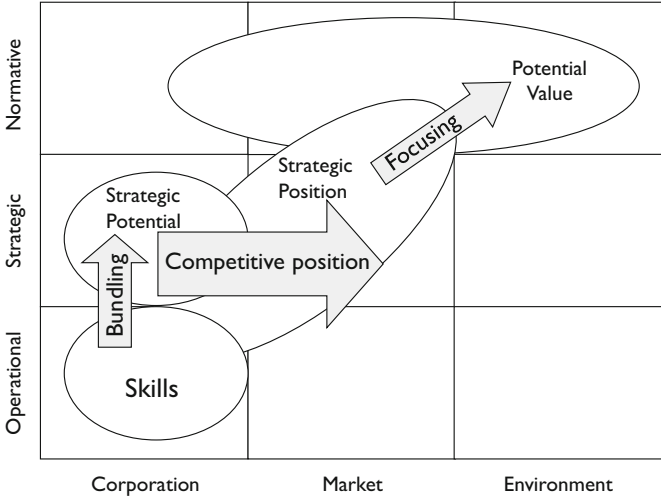


Figure 8.3 Bridge Function of Strategic Potentials
Source: Bleicher, 1999, 465

The limited manageability and controllability are shown, for instance, by means of models illustrating the different stages of a company's development. These models follow the life cycle and describe the development of a company similar to that of a living organism as a process consisting of different phases. There are various business life cycle models that consider an organization's foundation, growth, and change as necessary stages of development. Greiner's model (1972) is widely accepted in Anglo-Saxon countries. According to his model, company age, as well as quantitative and qualitative size and criteria, play a role in logical order. Depending on where the company is in its business life cycle, various organizational forms are adequate for overcoming a particular crisis. It is vital to adapt the organizational form to the situation a company is in and to fill the organizational gap. Further models have been developed by Scott/Bruce (1987), Churchill/Lewis (1983), Kazanjian (1984), and Kazanjian/Drazin (1990).

The life cycle can be analyzed in diverse ideal phases, like the pioneering phase, market development, diversification, acquisition, cooperation, and restructuring. These different phases result from conflicting priorities (tension) between the internal situation and the firm's environment (Bleicher 1999, 517ff.). All of the life cycle models share the notion that different stages of development follow a particular pattern and often go through a founding and a growth phase. At the end of the growth cycle, the company finds a new equilibrium (stabilization phase or maturity). Consequently, the growth phase is embedded into a change phase, leading to a firm's stabilization, closing down, or turnaround.

Corporate development can thus be understood as a company's change processes over time, something that gradually has an impact on defined paramount objectives and strategies and on the structure of a firm, as well as on modified values and behaviors of staff and management (Figure 8.4). The objectives of a company its organizational and management structure are reflected in different management concepts, such as information and communication management, project management, organizational concepts, and production management/ technology management. All the management concepts help to realize the firm's objectives during a change process. It is important to bear in mind that the company as a system or organism in the cybernetic sense develops its own dynamics, triggered by human and nonhuman factors, resulting in a situation where the company is no longer fully manageable and controllable.

Corporate development interpreted in this manner uses the development concept of biologists, implicating basic processes such as cell enlargement, proliferation, and differentiation (organ creation), as well as regeneration and regression of organs and parts of the body.

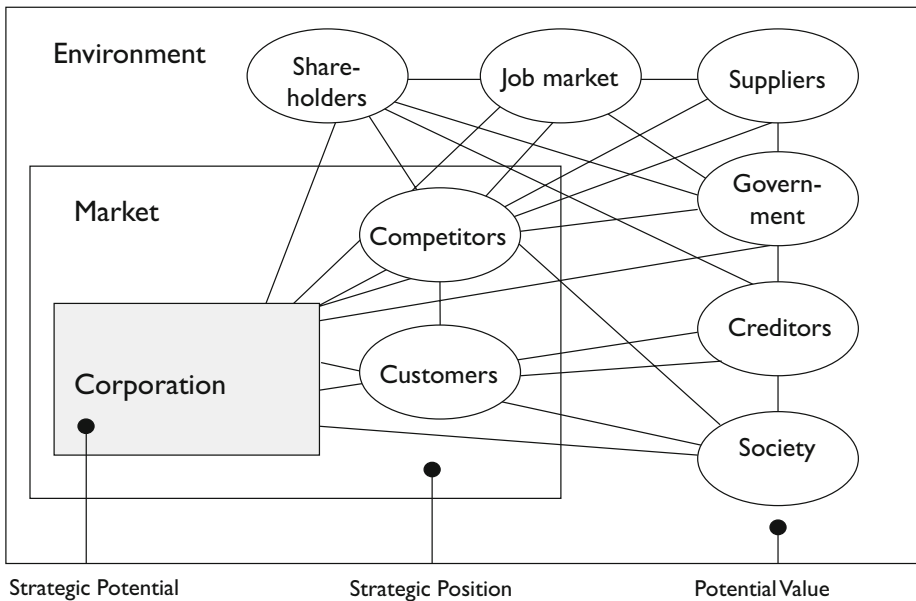


Figure 8.4 Dimensions of Corporate Development

8.3 Management of change

“Life is like riding a bicycle. To keep your balance, you must keep moving.”

Albert Einstein

The primary aim of corporate development is always to find new and more flexible solutions. Realistically it is impossible to define the “best durable concept” for strategic orientation, organizational form, and cultural management. System-oriented management is about working out possible and adequate solutions within an already existing process. A framework needs to be created to give change processes basic orientation, as well as enough leeway at the same time. Thus, there is no focus on the obviously “right” solution, but rather on limiting the variety of alternatives so that there is some control in the development of the company. The way change is implemented equally as decisive as the objectives themselves, all the more because companies are in constant change and because many change processes happen without intent, are coincidental and go unnoticed for a long time.

How these change processes should be managed is a controversial issue. To put it simply, two fundamentally different viewpoints exist. One side, based partly on Lewin’s “un-freezing/moving/refreezing” theory (1963), postulates the feasibility of large-scale change (Capgemini 2005, 6).

The other side denies this view, arguing that planning for change in modern systems is impossible. Instead, change management requires situational, flexible, and adaptive

reactions over time, similar to a reactive natural change from the system itself. The Anglo-American literature, including Weick, Wheatley, or Johnson, refers to this approach as “emergent”. Recently, this theory has become prevalent, though it is still unable to provide a concrete solution to all the practical problems of change management.

8.3.1 The concept of force field analysis

A planned change introduced systematically and with rather intensive preparation occurs if the management is geared to partial feasibility (Reiss, 1997, 13f.). Planned change implies all the efforts to modify the functionality of the entire organization, or significant parts of it, to improve efficiency and effectiveness. Examples of planned change are developing a new organizational structure, corporate succession, implementing a new corporate strategy, and introducing new technologies.

The field theory developed by Lewin (1963 /2004) serves as a useful reference for explaining planned change. According to Lewin, there are always forces in each situation that accelerate change (“driving forces”) and others that inhibit change (“restraining forces”). If the sum of the driving forces equals the sum of the restraining forces, equilibrium is achieved, representing the status quo.

If a company wants to survive in the long term, it is bound to reach equilibrium between stabilizing and progressive driving forces. If restraining forces prevail, resistance against change processes is too strong; necessary changes do not take place or occur too late. If progressive forces dominate, the organization does not find its balance; unease and inner uncertainty impede crucial system stability. Should a given equilibrium be changed, the dominant forces in status quo need to be modified, i.e. the given equilibrium basically has to be unfrozen. As a general rule, system disruption results in performance deterioration. Only when the driving forces have a positive impact and the change process ends will the system reach a new equilibrium on a higher level that ought to be maintained in the future.

Like most other change models, the concept of force fields distinguishes between three different phases of change: The “unfreezing” process of the actual state involves preparing the organization to accept that change is necessary. Existing attitudes and behaviors have to be challenged. The process of unfreezing is accelerated by external pressure, poor results, perception of a problem, or the awareness that other companies are simply performing better.

“Moving” means the transition from the actual state (A) to a future state (B). Change can imply many things: the introduction of new technologies, restructuring of a department, reformulation of a job description or learning new behaviors. In many cases, change is introduced too quickly, which causes resistance because the situation has not yet been unfrozen.

The aim of “refreezing” is to stabilize and integrate the change that has been introduced. This process is crucial to prevent a relapse into the original state. Therefore, it is important, for instance, that participants on training courses are able to apply new behavioral patterns in an appropriate way, and deliver convincing results. After returning to their job, however, they often revert to previous behavior patterns because these are more comfortable. One reason might be that rewards in connection with change of the status quo are almost non-existent, which does not motivate employees to apply new methods, procedures and behaviors that they have acquired via theoretical means. In this phase, evaluation is the key

to the success of the change process. It provides results on input/output and the possibility of further developing the change that has been introduced.

8.3.2 Strategies of Planned Change

If planned change is interpreted as a transition from an actual state (A) to a future state (B), then the transition period, i.e., the path from A to B, is absolutely crucial. Uncertainty, conflicts, and disorientation are characteristics of the transition phase. In this context, an important issue arises concerning how change needs to be operationalized to reach the desired goals. It is the process of change that is often the key to success. In reality, change processes differ in many ways, although it is possible to identify typical, partly contradicting types of strategies. They answer the question of which hierarchy level ideally lends itself to implementing comprehensive change.

The top-down strategy also called the “bombshell” technique, is characterized by the rapid and radical implementation of change with quickly defined expert solutions aimed at suppressing resistance. The advantage for management is controllability, which is why mission statements can be useful. By applying the basics-upward strategy, the organization is developed from a comprehensive perspective with the participation of the staff. Obviously, it is impossible to implement the ideal bottom-up approach since support from the top is indispensable, even on a very limited scale. There can be a problem with the middle management operating between the two. As this often proves to be a critical hierarchical level that is difficult to convince, the bipolar strategy, a simultaneous approach at the highest and the lowest part of the hierarchy can be used to create pressure on middle management.

The wedge strategy has its starting point in middle management, from which it expands to the adjoining layers of the social system. In contrast, the multiple nuclei strategy is particularly suited to network organizations or to those cases where a few key personalities of the organization ought to be addressed. The main difficulty here is the coordination of all the different activities. Admittedly, combinations of single strategies are possible. The goal of each strategy or combination is that the change process should include all hierarchical levels. Numerous parameters influence the choice of an appropriate strategy: time, company age and stage of development, and corporate culture, as well as previous experiences with change processes. Therefore, methods and procedures have to be determined in accordance with the situation. Mixed strategies are possible, too. An example would be a combination of business re-engineering and organizational development.

The concept of business re-engineering, i.e., revolutionary change, involves radical and sudden change along with the fundamental redesign of business processes. It is a “coup” that suppresses any kind of resistance. By definition, this approach excludes any participation by the employees concerned.

Developed mainly in the 1960s and ‘70s in the US, the organizational development strategy is more recent. Today, it is regarded as an alternative to the dominant concept of business reengineering, which has caused an increasing number of problems. Organizational development is a methodical intervention strategy that, in most cases, is introduced by a consultant. Consulting comprises a change in know-how and demands a holistic view

of the development of organizations. The aim is to promote participation, learning through experience, and the personal development of the staff involved, as well as to increase the performance and flexibility of the entire organization. Several assessment criteria are used to compare business re-engineering with organizational development (Laloux 2014, 43ff).

The strategy of organizational development involves a long-term, rather evolutionary process. It leads to a situation where many employees identify with the change, which minimizes resistance during the implementation process. Furthermore, benefits can be drawn from the accompanying learning process for future change. The real advantage of business reengineering, however, is the time aspect; change can be achieved in a shorter period of time. In this respect, the role of a consultant is often compared with the job of a doctor when, in fact, he is a process consultant or promoter in organizational development.

As mentioned before, the key difference between business reengineering and organizational development is the time factor. The analysis and conception phase in business re-engineering is often much shorter than for an organizational development process, where the involvement of people naturally takes more time. The duration of the analysis and conception phase is often regarded as a significant advantage, which can only increase as the employees' uncertainty is reduced. However, the fact that the reorganization process is completed only at the end of the implementation phase puts the time factor into perspective. Midlevel leaders could be essential to create a company culture that's healthy and vibrant (Harrison/Rogers 2024, 61ff.).

Nevertheless, the advantage created by saving time can be paramount in situations where this factor is critical to entrepreneurial success. Hence, an early warning system is vitally important so that the need for change is recognized early. Only if ample time is available does a company have room for maneuver; otherwise, there is no choice but to apply business re-engineering.

8.3.3 Comparison of Change Strategies

The strategy of organizational development involves a long-term, rather evolutionary process. It leads to a situation where many employees involved identify with the change, which, therefore, minimizes resistance during the implementation process. Furthermore, benefits can be drawn from the accompanying learning process for future change. The real advantage of business reengineering, however, is the time aspect; change can be achieved in a shorter period of time. In this respect, the role of a consultant is often compared with the job of a doctor, when in fact he is really a process consultant or promoter in the process of organizational development.

As mentioned before, the key difference between business reengineering and organizational development is the time factor. The analysis and conception phase in business reengineering is often much shorter than for an organizational development process where the involvement of people naturally takes more time. The duration of the analysis and conception phase is often regarded as a major advantage, an advantage that can only increase as the uncertainty of the employees involved is reduced. The fact that the reorganization process is completed only at the end of the implementation phase, however, puts the time factor into perspective.

Nevertheless, the advantage created by saving time can be paramount in those situations where this factor is key to entrepreneurial success. Hence an early warning system is vitally important so that the need for change is recognized at an early stage. Only if there is plenty of time available does a company have room for maneuver; otherwise, there is no choice but to apply business re-engineering.

8.3.4 Resistance to Change

Change in corporations cannot be implemented silently, inconspicuously, or without any problems. On the contrary, if anything provokes resistance. On the one hand, it may manifest in a transparent manner, in cases where employees go on strike or express explicit rejection of the proposed change(s). On the other hand, resistance can also be more or less hidden and manifest “quietly” in the form of increased absence, performance restrictions, a reduction in quality, or a request for a transfer to another location (Doppler/Lauterburg, 2019, 293ff.).

Therefore, it is recommended that an in-depth analysis be conducted to quantify and appreciate the opposition to change. Typically, the economic and social psychological causes of change are differentiated.

Resistance is caused mainly by the fear of being dismissed, i.e. it is caused by economic reasons. Any downgrading of jobs and thus any possibly reductions in salary also constitute a real threat and highlight the need for security and social recognition. Technological change, in particular, often has economic consequences that have to be borne mainly by the staff concerned.

The socio-psychological causes of resistance should also not be underestimated. Every threat to security that has grown over the years through a specific job in a well-known environment causes extreme fears:

- Fear of an unknown impact of the change
- Fear of not getting along with new colleagues or a new team
- Fear of losing privileges and status symbols (without these being substituted by others)
- Fear of losing the autonomy that has been gained gradually in a job
- Fear of the overall change of the entire (well-known) formal and informal behavior patterns in the corporation

Resistance to change comes not only from the employees concerned, but also from management. The higher a person has climbed up the hierarchical ladder, the more power and influence has been gained, which naturally results in fear of losing this power due to the change. Despite close identification with the corporation, a manager's goals for their firm are not necessarily identical to their objectives. Often, a manager promotes and supports only those change processes they can benefit from, whereas they will block developments that threaten their position, as positive as these might be for the entire corporation. Empirical studies prove that people with different personalities also react differently to planned change (Smollan 2010, 90 ff.).

Extreme resistance to change is encountered by people and teams that:

- Rely primarily on their experience
- believe in the continuity and stability of the conditions
- have a relatively high aversion to risk
- take their job very seriously
- are less educated
- are of a certain age

Team resistance has to be expected if the team members:

- have a distinct team spirit
- make it clear that they want to stay together as a team
- rate their team as superior to others
- have a leader that has a negative attitude to change himself

Generally, resistance to change cannot be avoided if the expected outcome is negative, whereas change processes are supported in situations where the staff concerned perceives positive developments as a result of the change. Resistance is a natural concomitant phenomenon of change and cannot simply be eliminated.

The existing literature offers a wealth of suggestions for overcoming resistance to change:

- Provide information on the causes and goals of change
- staff participation
- rewarding supporters of change
- avoiding revolutionary approaches
- choosing a competent change agent

It is essential to relate standard measures that help support a change process to situations where they can be applied best. Information has to be provided if resistance is based on information deficits, rumor, and misunderstanding. Participation is important in cases where important information is lacking to design the change and where the staff concerned has considerable power to resist. In a win-lose situation, and when powerful interest groups exist, it is suggested that negotiations be started, that manipulation be used if all other tactics seem inappropriate, and finally, that coercion be applied where speed is essential, and management is in a position of power.

All in all, resistance should by no means be considered something that has to be overcome immediately. Like pain in the human body, resistance can be interpreted as a warning signal. Just as it is wrong to fight pain with painkillers instead of searching for the cause, it is unrealistic to eliminate resistance by implementing disciplinary measures. Instead, concepts have to be developed that deal with fundamental aspects, such as creating a changing culture and implementing sustainable values for corporate development. This is all the more important given that according to the management cyberneticist Ashby (1962, 1970), change is a condition of stability. The sustainable development of a company is marked by stability and change, uncertainty, and phases of stability. Incremental, evolutionary phases alternate with radical, revolutionary phases. On the one hand, radical change means

confrontation of competing paradigms, i.e., different constructions of reality. On the other hand, change represents the modification of meaningful models, the knowledge basis, and the role structure. Put simply, it means a change of the system's identity.

The differentiation between evolutionary and revolutionary phases emphasizes the fact that the depth, intensity, and scope of change processes vary between companies (De Sousa et al. 2024). The approach of continuous improvement process (CIP) and the concept of business reengineering, for instance, are reactions to the phenomenon of different change phases. Depending on the stage of a company's development, optimization ("fine-tuning") is appropriate, followed by phases where major restructuring is inevitable. Scientific research proves the necessity of major restructuring processes (Barker et al. 1994, Mone et al. 1998, Cameron et al. 1993). Company reorganizations that focus only on the increase in efficiency can reduce the long-term prospects of corporate growth and stability, meaning that they negatively impact sustainable corporate profit.

8.4 Innovation: Planning the Unplannable

"Innovation is creative destruction."

Joseph A. Schumpeter

8.4.1 Introduction

The viability of a firm depends on its ability to change and innovate. Both change and innovation concepts have had a strong impact on research in the management field in recent years. Innovation and change are inextricably linked to one another since the success of innovation arises from the nature of change, i.e., from the change induced by innovation. Those who create innovation are the driving forces of change; these very changes become competitive advantages on markets because other companies do not have access to a new technology, for instance. Internal innovative process structures also lead to competitive advantages that help ensure efficiency in producing goods and services in a sustainable manner (Ergenzinger/Krulis-Randa 2000, 228 ff.).

Maintaining the ability to innovate and to capitalize on these innovations becomes paramount if sustainable corporate development is to be achieved (Bleicher 1999, 626). To make it possible to anticipate change, concepts that deal with fundamental aspects of change, management, and the implementation of sustainable values for the development of the company are necessary. An enhanced ability to innovate, as well as to change, becomes vital since the increased stress of competition and the pressure to be innovative — in many cases with a shrinking budget for research and development — forces the company to open up the innovation process and increase the innovation potential (Anthony et al. 2008).

There is no doubt that innovation contains some kind of novelty and is more than just a gradual improvement or solution to a technical problem. One of the outstanding personalities in the field of innovation research is Joseph A. Schumpeter (1939), who, at a very early stage, pointed out the importance of the economic and organizational dimension

of innovation, besides the obvious technical orientation. This holistic view of innovation clarifies that it is not only a scientific and engineering issue but also one of economics and management (Christensen/Raynor 2003). An innovation can be regarded as a destructive process, such that existing market services and processes are removed, and learned behavioral patterns are destroyed; old things are actively replaced with new ones.

Most importantly, the term "innovation" must be distinguished from the terms "discovery", "invention," and "imitation" (Reeves et al. 2019). A discovery describes the finding of something that exists in nature and that is not patentable. Invention ("making things possible") comprises the utilization of existing knowledge and particular abilities in order to realize a new approach to problem-solving. One example is the discovery of macromolecules by Hermann Staudinger, which served as a basis for the invention of synthetics. Lastly, the term imitation is understood to refer to copying a utilization of problem-solving that has already been employed in other companies. Strictly speaking, it is not an innovation, but according to the subjective perspective of the company, it is something new and thus appears to them as an innovation.

Innovation ("making things happen") refers to the introduction of "something new", a "novelty," or "renewal,"; and in an entrepreneurial context, this can be understood as the successful implementation of an invention on the market. Consequently, Henry Ford is a classic innovator; Thomas Alva Edison was both the inventor and innovator of the electric bulb. Similarly, Otto Diesel, Carl Benz, Carl Bosch, Steve Jobs, and Elon Musk can be considered as both inventors and innovators.

Multifaceted definitions of "innovation" exist, which often lead to misunderstandings. To avoid an approximate interpretation of the notion, the following dimensions have been created, which serve as an approach to examine innovation (Bessant/Tidd 2015, 11ff.):

- Content/operational area: What does the innovation consist of?
- Subject: Who is the innovation new for?
- Degree of innovation; What is the extent of the innovation?
- Process-related dimension: How does the process start and end?
- Innovation triggers: What initiates innovation?

8.4.2 Operational Area of Innovation

The first-dimension analyses innovation in terms of its operational area, which results in different types of innovation. Here, the focus is on the differentiation between product innovation and process innovation, as well as their respective internal and external implementation. Product innovation deals with the creation of a novel product or service. Since product innovations have to be able to survive against their competitors on the market, they appear to be more difficult to implement than internal process innovations (Utterback 1994, 124-125). Process innovation mainly improves the productivity in the production process (efficiency). However, innovation typology cannot be confined to product innovations and process innovations, especially as innovation activity is located in all functions

along the value chain of a firm (Glink 2000, 10; Hauschildt 2004, 11; Quadbeck-Seeger 1998, 106).

Furthermore, organizational innovations allow for improvement in organizational structures and systems. Cultural and social innovations promote development in the fields of human and social relations and corporate culture. In recent years, value innovation has increased in popularity. This type of innovation aims to discover new market niches with the help of innovative marketing and business strategy methods (Chan/Mauborgne 2005).

Naturally, other classifications are conceivable, such that product, process, and social innovation are differentiated (Bessant/Tidd 2015). Product innovations — and under this we include services — often occur in companies (Pleschak/Sabisch 1996, 14). Since product lifecycles are becoming shorter, it is the most significant factor in product policy; and relates to changing existing products and creating new ones. The launch of new or improved products should strengthen the competitiveness of the business, as well as satisfy demand. Revolutionary new products can also generate new demand. Product differentiation is created when already existing products are enhanced. Thus, specific demands in particular market segments can be satisfied. If only slight changes have been made, we speak of product variation. Here, it is not the improved performance of the product that is the priority, but rather a repositioning and, therefore, the extension of the product lifecycle (Vahs/Burmester 2002, 74-75). Finally, we come to product standardization, which has nothing to do with innovation, as such.

Next, we will examine process and procedure innovation. These concepts aim to change or rather improve the necessary processes for goods and services (Tidd/Bessant 2009). Apart from the processing of real physical objects — so-called material processes — information processes concerned with the exchange and preparation of information are included. Central to this is productivity which should be enhanced. This can be realized through shorter processes and throughput times, as well as fewer operations. Moreover, it can lead to improved quality or lower costs because of the improved goods or services.

Pleschak and Sabisch (1996, 20) are especially critical of the fact that many companies focus on product innovation, which the authors claim can seriously weaken competitiveness. Companies see their sole opportunity in product innovation because of its close link to consumer demand, and they thereby neglect internal company efficiency. In Japan, they have recognized this loophole and, with the help of specific instruments, improved internal parameters and factors, consolidating their market position (Pfeiffer/Weiss 1990, 7-8).

Example

The world's most innovative companies, 2023 (Innovation Premium)

The Innovation Premium measures how much investors have bid up a company's stock price above the value of its existing business based on expectations of future innovative results, such as new products, services, and markets. ◀

Rank	Company	5-Year Avg. Sales Growth (%)	5-Year Avg. Net Income Growth (%)	Enterprise Value (\$bil)	Innovation Premium
1	Salesforce.com	39.5	78.7	20.7	75.1
2	Amazon.com	32.0	37.6	92.7	58.9
3	Intuitive Surgical	43.4	36.4	13.4	57.6
4	Tencent Holdings	69.0	75.4	46.5	52.3
5	Apple	35.1	60.7	303.4	48.2
6	Hindustan Unilever	10.0	4.0	15.5	47.7
7	Google	35.0	37.1	138.1	44.9
8	Natura Cosmetics	17.0	13.5	10.2	44.5
9	Monsanto	27.2	25.0	19.5	43.6
10	Bharat Heavy Electricals	13.4	44.7	41.3	42.6

Source: HOLT/Innovator’s DNA LLC (2024)

Tidd/Bessant (2009) defines a further type of innovation — that of social innovation — which is concerned with planned changes in the human and social fields. Humane objectives such as job satisfaction, motivation, and increased productivity should be realized (Tidd/Bessant 2009; Vahs/Burmester 2002, 77-78). Social innovation is closely related to the other two types of innovation already mentioned, and it is often difficult to differentiate. Sometimes, they influence each other or act as a mutual trigger for innovation. In many cases, the realization of a process innovation depends on associated related social innovation. The fundamental problem with this type of innovation is that the objectives achieved are very difficult to measure. Moreover, the implementation of social innovation depends on the development of an innovation-friendly company culture.

Finally, here, we will describe structure innovation, which is concerned with the improvement of the assembly and application flow. As it focuses on business processes, as well as the people responsible, it is also closely related to the three types of innovation mentioned previously.

Therefore, the objectives of process innovation, due to them being easier to measure, allow so-called ‘hard’ goals can be followed, as well as social innovation objectives, ‘soft’ goals.

Generally, these types of innovation stand in changing, reciprocal relationships to one another. Consequently, it is often the case that a product innovation cannot be realized without a process innovation. This is also possible the other way around. New products can be produced as a result of new processes. Social innovation and structure innovation are — in this context — often the result of product and process innovation (Dyer et al. 2019, 18ff.).

8.4.3 Innovation Subject

Another dimension, innovation subject, takes into account from which perspective the degree of novelty of an innovation is viewed. Accordingly, innovation is only what is assessed as innovative. The differentiation between internal and external evaluation has to be made because a company can consider a new development as an innovation in a subjective rather than an objective way

From an external perspective, however, it is of interest if the innovation is new to the world (objective novelty), to the industry, to clients, to science and/or to the market. By means of a matrix, the subjectivity of an innovation can be classified. The result is a nine-cell matrix that allows new products to be categorized.

On the one hand, the matrix focuses on the internal view, the so-called newness to the company; on the other hand, the newness to the market is of interest to external market participants. The difficulty of the matrix is the delimitation of the market dimension. However, since there are many market participants, for instance, and because a new product addresses various markets — both new and old.

8.4.4 Degree and Process of Innovation

The degree of innovation can be examined in various dimensions. Despite the variety of criteria, it has become apparent that innovations have to be classified by means of both market and technological dimensions, as well as by differentiating between radical and incremental innovations. A radical innovation is, for instance, a product featuring completely new functionalities, leading to drastic cost-cutting (>30%) or output boost (a fivefold increase in performance).

According to Forster (1986), radical innovation can be identified if a new technology-S-curve and a new market-S-curve are initiated on an external level. This approach is popular with technology-oriented companies and positions technological innovations over time with the help of an S-curve. Development potential, time horizon, and procedural methods are essential criteria. In this context, performance comprises parameters such as knowledge gain, technological maturity, market growth, or degree of market penetration. Expenses are aggregated and include funds for research and development, investments, market development, and/or maintenance costs. The S-curve for supercomputers clarifies that the evolution of the performance of a technology gradually reaches its natural potential. For years, processor architecture was in use and the speed of light limited performance. Only the introduction of multiprocessor architecture made advances in performance possible. However, this technology is now limited in communication and coordination because of the various bottlenecks (Afuah 2003, 36).

The S-curve permits the comparison of similar projects, technologies, or products and enables the assessment of technological advancements. The curve consists of three stages: emergence, growth, and maturity. The concept of the technology lifecycle (technological S-curve) demonstrates that radical innovation mainly appears in the first stage of the cycle (emergence), whereas incremental innovation occurs at the points of maturity or decline.

Contrary to radical innovation, incremental innovation has to be defined as products, for instance, that are based on previous technology but possess new features, characteristics, or improvements and focus on existing markets. Only incremental innovation is possible once a technology reaches its degree of maturity. The phenomenon of technological advancements presents a big challenge to a company. There is a danger of missing technological advancements, as well as the danger of newcomers replacing the dominant design with a new key innovation. Therefore, established companies are forced to constantly observe the scientific and competitive environment so as to deny their competitors are not given the opportunity to discover market niches.

The process-related dimension of innovation comprises the innovation process in a broader sense — from the discovery and project idea to the implementation on the market. The process starts with the realization of a problem — or rather the formulation of an idea, which in turn leads to the problem-solving process in research and development and ends in the generation of an invention. Research and development are supposed to prepare innovations based on scientific insights. This field can be divided into basic research, technology development, pre-development, and product- and process development. The ultimate goal of research and development is to acquire new knowledge, which will ideally result in the further enhancement of products and processes.

The phase of the invention is followed by the procurement of the production capacities and the launch of the new products on the market. Innovation leads to the commercialization of the invention, i.e., if a promising invention exists, production and market development has to be prepared. In a narrower sense, innovation implies a market launch as a product or process innovation (Westland, J, Ch. (2008). In the following description, the concept of innovation will be used in this narrower sense, i.e., as a result of a market launch.

In contrast, the entire innovation process is defined as innovation in a broader sense. From a management perspective, the issue of market recognition as a result of innovation diffusion is vital after the market launch. The innovation dimensions outlined need to be integrated and enhanced to outline the challenges of diffusion on the market. For this purpose, Rogers's (1962) innovation acceptance model of new product acceptance serves as an ideal basis.

Similar to biological growth processes, it was proven that there are five distinct stages to the process of innovation adoption, based on a bell curve (Rogers 2003, 281): First, "innovators" (2.5% of the acceptance potential) accept the novelty, followed by "early adopters" (13.5%) and "early majority" (34%); until the innovation becomes popular with the "late majority" (34%) and finally, the laggards (16%).

This categorization depends on each individual's willingness, ability, and awareness to adopt an innovation and assess its significance. Consequently, innovation willingness is generally not reflected by the market; rather, each product has to determine and find its own innovators, adopters, and laggards.

Based on these deliberations, Moore (2002a) developed the model of disruptive innovations by adding one decisive factor: The most challenging step is the transition between adopters or visionaries and pragmatists (early majority).

Numerous technical novelties adopted without problems by technology enthusiasts do not manage to cross the chasm into mainstream acceptance; thus, the novelties do not have long-term success. The reason is a different attitude of innovators compared to that of the majority of potential clients. Innovators are prepared to rely on future product developments, whereas the pragmatists in the mainstream market need a 100%-solution to their problem, a so-called finished product before they decide to purchase it. The lack of such a finished product on the early market is often a crucial reason for the commercial stagnation of innovation after an initial euphoria, which is frequently launched and supported by the media and other opinion-makers.

After the chasm, radical innovations — such as the paradigm shift from the long-playing record to the compact disc do not start off in the mainstream market immediately. Moore (2002a) uses the analogy of a bowling lane and relates it to the technology adoption lifecycle. Like in a bowling alley, a new product enters particular niches of the leading market and is accepted, whereas widespread approval by the general public must be gained with more effort.

Initially, everyone is enthusiastic about an innovation, which is then followed by uncertainty due to a lack of market recognition. Finally, the question to be answered is: Is it possible to turn the innovation into a finished product? If this is the case, it is only purchased by a very narrowly defined target group and successfully conquers niches before setting off a revolution (Moore 2004a). This revolution rips through the market similar to a tornado that has three characteristics or principles: a joint movement makes a great number of new clients rush into the market at the same time, which causes the existing distribution system to be overstretched. Since each firm is trying to win the clients' favor, competition increases massively. All the clients demand the same product, however, which creates additional demand for one single supplier, resulting again in a more crowded market. It is an emotionally charged situation where all the participants want to do business immediately. Because everybody's behavior is similar to the others' (herd instinct), negative feedback is common, which makes the market even more nervous. What started as a controlled movement rapidly turned into an uncontrolled rush of the masses.

The different types of innovation can equally be integrated into the theory of market acceptance of innovation, according to which every form of innovation has to appear at one particular time. Geoffrey A. Moore (2004b) basically differentiates between eight different types of innovation, each needed in the various stages of a lifecycle.

Disruptive innovation

Products based on disruptive technologies typically dispose of new characteristics that attract new customers in new markets (Christensen 2005, 47-48). These products are usually less expensive, simpler, smaller, and easier to use. In the long term, they can potentially eliminate established products and systems. Disruptive innovations are able to initiate a paradigm shift (mobile communication); however, in some cases, they remain a fad or rather a short-term trend, like the "Tamagotchi", for instance.

Application innovation

Application innovation transfers existing technologies to new markets, generally expanding the market for these technologies. An example of this is the integration of GPS functionalities in pocket PCs.

Product innovation

Existing solutions in existing markets are further developed to such an extent that the market is increased. A classic example is the “VIC-20” or the succeeding model, “C64,” produced by Commodore.

Process innovation

Generally, it leads to decreased prices or better service because of enhanced efficiency; for example, it serves all the discount brokers that automatically process security transactions over the Internet.

Empirical innovation

It enhances the overall impression of products and services, such as FedEx's online tracking system or AOL's email alert: You got mail.

Marketing innovation

It simplifies a client's processes, such as the multi-channel banking of credit institutes.

Business model innovation

This kind of innovation is one option to prevent a technology's decline. Offer and price are newly defined, for example, by shareware and freeware distribution models in the software market.

Structural innovation

This form of innovation benefits from environmental developments that cannot be directly influenced, such as the deregulation of the telecom industry.

The market acceptance model emphasizes the fact that companies have to gradually adapt their core competencies if they wish to achieve attractive returns in the future. Product innovation is a vital factor in the early development stage of a market, although later novel process management and marketing innovation, or the courage to implement a different business model, gain increasing importance. The further a company is in its market cycle, and the more successful it used to be, the more difficult it will be to develop new forms of innovation alongside eliminating old processes and structures.

Business models are crucial in evaluating business decisions and they are even more helpful regarding the increasing complexity in which firms face a variety of strategic options and operational choices. A business model allows various assumptions and scenarios to be tested and the modeling process helps to develop a clearer understanding of relationships between the variables and the likely outcomes (Tennent/ Friend 2011). A particular way to develop and evaluate a business idea is the business model canvas (Osterwalder/ Pigneur 2010). Based on a design approach, they show that modeling and mapping value

propositions helps better understand the value a company wants to offer its customers and makes it communicable between various stakeholders. Using common language when defining a company's offer brings managers' mental models into a common form. Furthermore, conceptually seized value propositions are comparable to the value propositions of a firm's competitors because they follow a rigid framework and make it possible to identify the competitive position of a firm's value proposition.

The lean canvas model is another way to design the framework of a new business. The lean canvas is a tool developed by Ash Maurya (2012) and is an adaptation of the Business Model Canvas. It is a concise one-page visual representation of the business model. It allows for brainstorming of possible business models, determining initial priorities, and monitoring ongoing learning throughout the entrepreneurial process. Deconstructing the idea in one page also indicates where the risks are. The lean canvas model serves when introducing a new product or service to the market. The objective is to rapidly test assumptions, collect feedback from real customers, and conduct tests using a Minimum Viable Product (MVP). Furthermore, the company tries to measure the outcomes, compare them with the initial hypothesis, and make adjustments based on what it has learned. The validated learning loop, also known as the Build-Measure-Learn loop, was formalized by Eric Ries (2011) and outlines the iterative process of gathering customer feedback that drives learning. The cycle begins in the Build stage, where ideas or hypotheses are translated into an artifact (code, landing page, mock-ups, etc.) designed for hypothesis testing. This artifact is presented to customers, and their response is assessed through a mix of qualitative and quantitative data. The obtained data gives specific insights that either validate or refute a hypothesis, which drives the next set of actions.

The Lean Startup philosophy combines customer development, agile software development methodologies, and lean practices. The essence of "Being Lean" lies in minimizing waste and optimizing resource efficiency. The primary focus is on efficiently using the most limited resource, which is time. The specific aim is to enhance the acquisition of knowledge, particularly about customers, within a given timeframe: learning (about customers) per unit of time. Eric Ries states that successful startups are those capable of iterating a sufficient number of times before depleting their resources. Entrepreneurial principles can be used by organizations of all sizes, established companies, SMEs, or early-stage start-ups to foster innovation, grow revenues, and transform them into modern organizations (Ries 2017).

8.4.5 Open Innovation Approach

This variety of types of innovation accentuates the complexity of managing innovation for a company over time. Numerous theoretical and practical concepts, such as the so-called innovation funnel or the open innovation approach, have been developed in recent years to support this area.

The innovation funnel promotes the idea that each innovation project passes through clearly defined stages that constitute an in-depth assessment. Employees and clients submit their ideas to the innovation funnel on a regular basis. Then, these ideas are filtered:

Does the idea contribute to increased efficiency? What benefits can the clients gain, and/or does the idea meet environmental protection or sustainability criteria (Chesbrough 2007, 25 ff.)?

The innovation funnel uses the lead-user concept and aims to generate new product ideas in cooperation with lead users. To find clients who can contribute to the development of new products, lead users need to be identified as those who recognize market trends or developments ahead of other clients and/or take particular advantage of an innovation. These lead users ought to be involved in the development process in an integrative manner.

The open innovation approach states that a company's innovation process ought to be open to the external environment, provided that clients and suppliers are actively involved in the process. This procedure implies that invention and innovation do not have to occur in the same place as they are exploited and turned into new products.

Companies can benefit from systematically opening the innovation process ("open-market innovation") to retailers, clients, and competitors. Due to the trading of ideas, companies are able to assess the value of their ideas, make more realistic market forecasts, and define their core business more accurately. In particular, the importing of new ideas is appropriate to intensify a firm's own activities specifically.

Exporting ideas ensures that they are exploited without the company losing its own talents. A company that has successfully developed a new technology is not necessarily best placed to take charge of its commercialization. The rationale behind open innovation is that external ideas and external knowledge are coupled with the internal innovation process in order to facilitate entering unexploited markets.

Outside-in-process: Acquisition of knowledge and ideas external to the company through integration of clients and suppliers, as well as external technology sourcing.

Inside-out-process: The company endeavors to reduce fixed costs for R&D; or searches for a partner in brand-building. Possible outcomes: the multiplication of technologies, licensing of intellectual property (IP), cross-industry innovation.

Coupled process: The company concentrates on setting standards or a dominant design for the products. Strategic alliances with complementary partners are established and/or innovation networks are built (Thompson et al. 2020, 56).

Example

Open innovation at Procter & Gamble

For centuries, P & G was proud of its research and development. Obviously, new in-house developments were the basis for the company's growth rates. However, the more the company grew, the weaker the success rate of the innovations became. The global environment had also changed tremendously for P & G, but the innovation model had not been further developed since the end of the '80s. In 2000, R&D productivity was definitely too low, and the costs for innovation increased faster than the growth in sales. The new CEO, A.G. Lafley, was convinced that opening up to the external environment was the key to future growth. He required an innovation model to obtain half of all the new developments from other firms' research laboratories by collaborating with innovators from around the world. The 7500 scientists and their assistants working for

P & G were to act as initiators for half the new products and as intermediaries for the other half. The company calculated that for each researcher at P & G, 200 external, competent scientists and engineers existed. This would imply that the company could benefit from the creativity of as many as 1.5 million people (Huston/Sakkab 2006, 24). The new model was then realized under the name of “Connect & Develop”. In the first five years, the percentage of products created by leveraging externally-developed innovation assets rose from 15 to 35. During this period, the success rate of innovations doubled, while R & D expenditure decreased. ◀

In practice, developing and sustaining the ability to innovate is extremely difficult. One reason might be the lack of creative ideas, although this is not the main challenge. Another factor, however, is the resistance of corporations to embrace innovation because new behavioral patterns are required, which involve giving up confirmed habits (Drucker 1985, 136ff.; Hauschildt 2006, 177-178). The mentality that has as its motto “Not invented here” is trying to conserve and defend former behavior patterns. Research realized by Harvard Business Review Analytic Services (2024) shows that creativity is important to an organization’s future success and that creative culture is a key contributor to strategic growth. 96% of survey respondents agree that creative ideas are essential to an organization’s long-term success and performance. 94% agree that organizations that invest in creative tools and technology will be more successful in the future.

8.5 Systemic Management as a “Solution”

“What we need is an entrepreneurial society in which innovation and entrepreneurship are normal, steady and continuous. “ Peter F. Drucker

Innovation emphasizes the challenge each company has to face. Depending on the stage of development, different strategic foci, adjusted organizational concepts, and creative socio-cultural measures are demanded. To achieve the ideal state of dynamic stability, integrated management concepts must be used that make a company governable and manageable without limiting its scope.

Active corporate development entails analyzing management on all levels and examining interdependencies. An integrated approach is the only way to manage complex challenges, such as innovation management.

Example

HILTI — integration of discipline and creativity

The worldwide leader in the development, production, and distribution of qualitative outstanding products and systems for professionals in the construction industry realizes a quarter of its annual turnover with products and systems that have been on the market for a maximum of three years.

Hilti’s innovation management comprises elements of an integrated concept’s dimensions and management levels. Corporate culture serves as its basis, on the one

hand, in a constructive and integrative function together with the CEO; on the other hand, with the so-called “Our Culture Journey” — where all 30,000 employees participate. During this cultural journey, the opportunity is seized to convey values such as integrity, courage, teamwork, getting rid of certain habits, and a high level of commitment. The most important award at Hilti is the innovation prize. This prize rewards not only technical but also commercial innovation.

The innovation strategy results from an intensive dialogue between technically-/scientifically oriented employees and management-/commercially-oriented marketing experts or managers. All activities in technology, product development, marketing, and distribution are coordinated, while the technical, distribution-oriented, and financial resources are used integrative.

Research, technological, and product development projects operationalized this innovation strategy. The three innovation processes are standardized and follow the stage-gate principle. In search of innovative solutions, Hilti systematically involves its clients, amongst others, in innovation activities through lead-user workshops, working-hour studies, etc. ◀

Vertical integration of management tasks occurs on three levels of normative, strategic, and operative management. On the other hand, the dimension's structure, activities, and behavior are integrated horizontally.

Normative management ensures a company's sustainable development with general objectives, principles, norms, and rules. Normative orientation processes give the company a distinct direction. Visionary management is required in all respects and is supposed to lead the company beyond the normative orientation processes. Visions can promote new technologies, concentrate on new markets and distribution channels, strive for conquest, aim for leadership in quality, service, or costs, clearly focus on employees, or try to overtake or catch up with competitors.

The normative level is the basis for strategic development processes that realize, evaluate, and maximize a firm's potential for success and manage its resource allocation. The marketing concept is incorporated in strategic decisions and subsequently impacts the different business processes and the parallelism and integration of various elements. Parallelism in so far that a SWOT analysis is also conducted in the marketing concept, though with a focus on the relevant market for the company.

Interdependence between the strategic and operative management processes becomes obvious when planning, designing, and implementing business processes (Burgelman 2018). Client processes, production processes, and innovation processes are established according to the strategy and clearly focus on the innovation process, which acts as a driving force for the business processes without neglecting client and production processes. If a clear realignment becomes apparent in the long term, internal conditions start to be created for the implementation of new processes. Existing resources and abilities are geared toward future markets, clients, and products; organizational structures and systems are adapted.

Dynamic stability can be ensured by complex integrated concepts that promote analogy and the ability to think and act in a cross-functional manner. Furthermore, they provide an ideal basis for internal innovation competence and sustainable competitive advantages.

Due to the dynamic of the markets, however, it cannot be predicted how long the latter will survive. The company is bound to pursue a sustainable strategy to be successful in business in the long term. A dynamic market environment needs to comply with the competencies of a company.

Focusing on the core business is connected with risks, and it can constrain the sustainable development of a firm in the long run. On the one hand, additional opportunities to grow and further develop a company are missed. On the other hand, there is the danger of established corporations being eliminated by new companies introducing groundbreaking innovation. This can only be avoided to a certain extent by concentrating on the core business and improving the existing product range. A company's dynamic ability to change requires the top management to act concertedly so that resources used in old processes are made available for innovation. Innovation forms — both internal and external — need to be developed at the same time as old processes and structures are being eliminated. It would be a mistake to stick to traditional structures, even if there is hope that successful innovations manage to mobilize old resources — thus initiating organic and smooth change.

These challenges force management to compromise, manage contradictory facts, and find solutions to numerous issues: Is revolutionary or evolutionary change required? Does the company require a central or a decentralized organization? Does it pay more to focus on the market or technology? How much autonomy are employees to be given?

These and other contradictions make top managers crave simple and precise "either-or" answers that leave no room for doubt: either efficiency or effectiveness, either price or quality, either top-down or bottom-up, or task or people orientation.

Rarely is an orientation towards one pole optimal, however, since both have advantages and drawbacks. Instead, central organizational structures, for instance, have the advantage of a shared vision and realization of synergies, and more efficient use of resources is implemented more quickly and in a better way. Yet, the drawbacks are growing bureaucracy, inflexibility, and lack of client orientation. Decentralization strives to compensate for these disadvantages by being closer to clients, positively impacting staff motivation and entrepreneurship. However, sometimes, it can lead to a lack of coordination or chaos, contradictions, and selfish behavior of the decentralized units. Consequently, one reaction to these drawbacks would be centralization. An organizational form constantly moves between these extremes. Similar observations can be made concerning the dualistic concepts of technology orientation versus market orientation, authority versus participative leadership, and task orientation versus people orientation.

The only solution to this dilemma is to interpret contradictions differently. At first glance, these ideas appear dialectic when, in actual fact, they are not contradictory but complementary. Market orientation or technological orientation, for example, do not have to be contradictory; as the two dimensions rather complement each other. This opinion is shared by Simon (1997, 2004), who has named companies that are both technological and market-oriented "hidden champions". Similar deliberations can be made concerning leadership and the choice of change strategies. It is not possible to choose between top-down or bottom-up; an ideal approach would rather be as follows: "Top-down for targets — bottom-up for how to do it".

Chapter Appendix

Key Take Aways

- The management or top management of companies has realized that they need to face the demands of the environment: be it a change in the competitive situation or changes in technology or values, internal processes must be adapted accordingly. The main challenge is dynamically harmonizing the company's strategy, structure, and culture.
- Corporate development must be understood as the company's evolution as a system of external opportunities, threats, and internal strengths and weaknesses.
- The main aim of corporate development is always to find new, flexible solutions. How change is integrated is just as decisive as the objectives themselves, even more so as companies are constantly evolving, and many change processes are unintentional or fortuitous and go unnoticed for a long time.
- A company's sustainability depends on its ability to change and innovate. They are inextricably linked. The success of innovation depends on the nature of the change and innovation induces change.
- It is essential to implement integrated management concepts to achieve the ideal state of dynamic stability.

End of chapter discussion: Roche — Fatal Innovation

The newspaper *Sonntag Zeitung* published the following article by Guido Schlätti on August 11, 2024.

The pharmaceutical company, Roche, is innovative. Group CEO Thomas Schinecker believes he has found a way to promote research innovation. He is introducing immediate bonuses of up to CHF 250,000 in the summer of 2024. Employees will no longer have to wait until the end of the year for special achievements, but will cash in immediately. In the past, the Basel-based company lived off the medicines of its American subsidiary Genentech. The patents have expired and despite record funding, the research department cannot find a replacement. The flash bonuses are unlikely to change this. They will attract the wrong people, stimulate the growth of envy and undermine the corporate culture. Apparently, the crisis will have to go even deeper before the time for true innovation has come.

- How do you analyze the article under a holistic management view?
- Please describe some short and long-term impacts of the decision.

Case Study 1: Dyson — Pioneering Innovation and Technology

The story of Dyson started in 1978, with a rudimentary cyclone made from cardboard and strapped to an upright vacuum cleaner in place of the bag. Four years and 5,127 prototypes

later, the first cyclonic vacuum cleaner was ready for production. But it wasn't until 1993 that the first mass-produced vacuum cleaner — DC01 — was launched and Dyson was in business. Under the leadership of Sir James Dyson, the company has become synonymous with revolutionary innovation and technological progress in the consumer appliance industry.

At its foundation, Dyson marked a paradigm shift in the vacuum cleaner market by introducing the bagless technology. This not only eliminated the inefficiencies related to traditional bag-based systems and improved cleaning efficacy, it also tackled the issue of gradual suction decline, a longstanding problem in the industry. Other innovations that followed were the ball technology for better maneuverability and the HEPA filters for improved air quality. These advancements made Dyson a leader in reshaping consumer expectations for household appliances.

Over time, Dyson's versatility in addressing diverse consumer needs led to a strategically diversified portfolio which included bladeless fans, hand dryers, air purifiers, and hair care products. The Dyson Airblade hand dryer, for example, brought the experience of hand drying in commercial restrooms to a whole new level due to its hygienic and energy-efficient design. This invention stems from Dyson's desire to engineer solutions that demonstrate its commitment to sustainability and efficiency.

The fact that the company assigns a large portion of its revenue to research and development is, without doubt, the key to its success. The technology campus in Wiltshire, England, nurtures a culture of experimentation and exploration and functions as a central hub where engineers and scientists can collaborate on state-of-the-art projects. Due to substantial investment in R&D, Dyson is a pioneer in emerging technologies, including artificial intelligence, robotics, and the Internet of Things.

Expanding into international markets, the company put emphasis on sustainability and advanced technology in order to solidify its position. Consumers worldwide have chosen Dyson products for their performance, beautiful and practical design, and environmental consciousness. The flawless unification of advanced technology with everyday products has appealed to a very diverse consumer audience, contributing to its widespread acceptance.

While Dyson has achieved remarkable success, it faces challenges, including strong market competition, potential saturation, and compensating for production costs with competitive pricing. Similar to its many competitors, the company is also vulnerable to supply chain disturbances, legal complexities in different markets, and global economic fluctuations. Taking into consideration environmental concerns and adapting to changing consumer preferences are causing additional complications. Dyson must equally navigate the diversification risks of entering new product categories and technological risks linked to early adoption. Triumphant overcoming these challenges calls for continued innovation, adaptability, and a subtle understanding of global market dynamics.

Dyson's journey puts under the spotlight the power of innovation to transform industries and establish a lasting bond of loyalty with consumers. From its impact on the vacuum cleaner industry to its strategic diversification, Dyson has continuously challenged the limits of conservative thinking, establishing new standards and reshaping markets. As the company puzzles out challenges and explores new borders, its legacy highlights the unwavering influence of technology on our day-to-day lives. Dyson's dedication to inno-

vation continues to be a driving force, inspiring future progress and reinforcing its position as a pioneer in bringing together technology and consumer products.

Case Study 2: Patagonia — An Extraordinary Journey

Yvon Chouinard began climbing at the age of 14. He taught himself blacksmithing to make his own climbing hooks, which he sold to other climbers. In 1965, Yvon and his fellow climber Tom Frost formed Chouinard Equipment, focusing on developing better tools for climbers. By 1970, the company had become the largest climbing equipment company in the United States but was aware of the permanent damage its hooks were doing to rocks, so they decided to get out of that industry and switch focus towards outdoor apparel manufacturing instead. The Patagonia brand was officially born when they adopted the name for their outdoor apparel line and opened up a store near Chouinard's blacksmith store in Ventura, California, in 1973.

From the beginning, Patagonia had a strong emphasis on protecting the environment, which mirrored its founders' values. In 1986, it committed to donating 10% of its profits to environmental groups. Later, it implemented a policy of not working with factories that could not be visited in person to verify working conditions. They switched to 100% organic cotton and eliminated chlorine from wool products by 1996, opened a distribution center that reduced energy consumption by 60% through solar-tracking skylights and radiant heating in 1998, hired a social responsibility manager in 2002, and screened potential manufacturing partners for quality of products produced as well as conditions for factory workers since then.

Patagonia aligned all its activities with environmental objectives. This includes developing sustainable value propositions, accepting higher activity costs, and applying premium pricing in order to make high-quality outdoor clothing and equipment accessible to customers who are more environment-conscious than price-conscious. The company's success enabled them to become an openly activist organization. Although expansion was not the primary aim of Patagonia, their unique approach, along with their environmental focus, had allowed them to grow steadily.

Despite its success and good reputation, Patagonia has always struggled to balance its performance, social and environmental responsibility, and transparency. Outsourcing for the materials and production that went into the core product made them reliant on external sources, which turned out to be their downfall. When reports of animal mistreatment and unhealthy work environments by suppliers surfaced, it had a large financial impact on Patagonia, leading them to stop publicly revealing who they sourced from. Their CSR model was consuming all financial means to deliver an environmental and social benefit to society. This threatened Patagonia's financial stability and exposed the company to liquidity risk.

In 2022, all of the company's voting stock was passed over to the Patagonia Purpose Trust, which exists to protect its values. The nonvoting stock went to the Holdfast Collective, a nonprofit organization working to prevent environmental damage and conserve

nature with support from Patagonia. Today, the American retailer of outdoor clothing operates factories in 16 countries and stores in 10+ countries globally.

View from the Media and Case Study 3: Nike's new chief runs into trouble as turnaround efforts falter

The world's largest sportswear maker is in crisis as its sneakers lose some of their cultural cachet

Financial Times, July 9, 2024, by Sara Germano

One of the most covetable sneakers ever made is a pair of black and yellow basketball high-tops, the Wu Tang Dunks, released by Nike in 1999. Legend has it that just 36 pairs were ever produced and given to friends and family of the Staten Island hip hop group. But when the world's largest sportswear maker teased a commercial release of the shoes last week, posting a photo of the kicks to the Nike Sportswear account on Instagram, some collectors balked. "It's hard not to think this is unconnected to Thursday's disastrous earnings call," wrote Mike Sykes, author of the sneakerhead newsletter, *The Kicks You Wear*. By taking a special collector's item and putting it for sale to the general public, he said, "it feels like Nike is just buttering us up and hoping we forget how stale things are". Nike is in a crisis. On June 28, the day after executives issued a dim forecast for the year ahead, its shares plummeted 20 per cent in the single-worst day for the swoosh since its 1980 initial public offering. Consumers are not as fond of the brand's classic shoes, such as the Air Force 1s, Air Jordan 1s and Dunks, as they used to be. Wall Street, disappointed with Nike stock that has fallen 30 per cent since the start of the year, is openly calling for "regime change" in upper management. "Having a tech executive who came in to run a consumer product company and introduce a strategy shift, it's proven to be the wrong approach," said Jim Duffy, managing director at Stifel. That tech executive would be John Donahoe, Nike's chief executive since January 2020, who previously served as the head of eBay and ServiceNow. In his time at the sneaker giant, Donahoe has overseen two massive restructurings leading to hundreds of lay-offs and reorganising Nike into men's, women's and kids' categories instead of divisions devoted to individual sports. For the quarter ended in May, revenues at Nike sank 2 per cent to \$12.6bn, compared with the year prior, while sales directly to consumers fell 8 per cent over the same period. The company said it now expects revenues to fall "mid-single digits" for Nike's fiscal 2025, compared with its prior forecast of incremental growth. In a statement issued the day of Nike's stock plunge, the company's cofounder and largest shareholder, Phil Knight, said: "I have seen Nike's plans for the future and wholeheartedly believe in them. I am optimistic in Nike's future and John Donahoe has my unwavering confidence and full support." Initially in his tenure, Donahoe was perceived as both a breath of fresh air at Nike — embracing change and keen to address demographic inequalities within headquarters — as well as someone who had Knight's ear. The onset of the coronavirus pandemic accelerated an existing plan to focus on higher-margin sales directly to consumers, especially on Nike's website and apps. But as the world emerged from Covid-19 lockdowns, Nike "took its eye off the

ball”, Duffy said. A black eye came this spring, when the Major League Baseball season began. Uniforms supplied by Nike were see-through and lettering appeared small and cheap, prompting complaints from players and scorn from fans on social media. In May, MLB commissioner Rob Manfred issued a statement saying the league “listened to our players” and was working with Nike to correct problems, including discolouration from perspiration and adjustments to lettering and uniform colours. One longtime employee, who left the company voluntarily during Donahoe’s tenure, said the MLB fiasco “would never have happened” when Nike’s internal structure had focused teams for each sport, including baseball. Successive rounds of lay-offs — some 1,940 jobs have been eliminated at Nike since 2020, according to paperwork filed with Oregon’s office for dislocated workers — coupled with the reorganisation from sport categories to men’s, women’s and kids’ silos has disrupted the focus. Recommended FT News Briefing Nike’s new game plan Furthermore, by eschewing longtime wholesale partners, competing brands such as Hoka, On and New Balance took up Nike’s market share at chains including Foot Locker. In its semi-annual survey of teen shoppers, Piper Sandler observed in April that Nike’s hold on the top spot of preferred footwear brands was beginning to slip, declining more than 2 per cent over six months while New Balance was the largest gainer. Martin Hoffmann, co-chief executive of On, told investors on a conference call in March that the brand’s share of direct-to-consumer customers under the age of 30 is now 29 per cent, compared with just 24 per cent in 2021. The company has more than doubled revenues during that time. Duffy, the Stifel managing director, said those metrics underscored not only that On was catching on with younger consumers now, but that a large segment of the wider growth in athletic brands has been older adults — a trend that Nike has missed. “Traditionally that sweet spot was the 15- to 35-year-old age bracket,” he said. “But a lot of older adults are now wearing sneakers to work, sneakers travelling, embracing that smart-casual look.” Matthew Friend, Nike’s chief financial officer, said some of the company’s recent initiatives are starting to bear fruit. Bookings by retail partners for Nike’s shoes this coming autumn are up “double digits” from the year prior, led by the June release of the Pegasus 41, a performance running shoe. Recommended LexNike Inc Nike faces uphill climb in sneaker wars Premium content On the flip side, younger consumers do not have the same sense of attachment to some of Nike’s staples, such as its Jordan sneakers, according to Sykes, author of the sneakerhead newsletter. “It’s been decades since Jordan played basketball, and Gen Z don’t have any connection to this guy,” he said. “You used to see people wear Air Force 1s or Dunks or Jordans on special occasions. Today you’ve got people wearing different pairs of Asics or even Crocs.” On a conference call with analysts, Donahoe said the company is planning “reductions” in its three largest sneaker franchises, which includes the Jordan 1. Nike and its chief competitor Adidas often release and restrict certain bestsellers, like the Air Forces and the Superstars, respectively, in order to manage demand. “It’s a great time in footwear, but not necessarily the best time for Nike, because they’ve been so dominant for the past 20, 30 years,” said Sykes.

<https://www.ft.com/content/4fdc1b22-246c-402b-abaf-f56e5d591cdc>

View from the Media and Case Study 4: Apple revenues rise on strong services business and iPad sales

Company bullish on iPhone upgrades from AI products even as it confronts China slowdown and fall in smartphone purchases

Financial Times, August 1, 2024, by Stephen Morris and Michael Acton

Apple's revenue increased 5 per cent in the three months to the end of June, as earnings from its services business and a surge in iPad purchases offset a decline in iPhone sales and a continued slowdown in China. Total net sales rose to \$85.8bn from \$81.8bn in the second quarter of 2023, beating analysts' expectations for \$84.5bn. Net income rose 8 per cent to \$21.4bn from \$19.9bn, while earnings per share were up 11 per cent year on year to \$1.40 versus the consensus estimate for \$1.35. Shares flipped between small gains and losses in after-hours trading on Thursday. Apple has risen 18 per cent this year and is the most valuable company in the world with a market capitalisation of \$3.3tn. Blemishing the quarter, revenue for the closely watched greater China region declined again, falling 7 per cent to \$14.7bn from \$15.8bn a year earlier, as Apple continues to face competitive pressure from local handset makers and a ban from governmental use. While acknowledging the challenges faced in the country amid US-China geopolitical tensions, chief financial officer Luca Maestri said that on a constant currency basis the fall in sales was only 3 per cent and the rate of decline was slowing.

More encouraging was Apple's services business — which includes the App Store, Apple Pay and the TV+ streaming platform — which continued to accelerate, rising to \$24.2bn from \$21.1bn a year ago. Revenue from its flagship iPhone was \$39.3bn, down slightly from \$39.7bn a year ago. This was offset by a 24 per cent jump in iPad sales to \$7.2bn, driven by the release in May of a series of new models with more powerful chips and larger screens. "[The] focus will be on underlying demand across various product categories, especially iPhones given concerns around overall smartphone market and China competition," said Citigroup analyst Atif Malik. Apple is bullish at the prospect of many customers upgrading to the newest iPhone models to gain access to new artificial intelligence features. With the iPhone 16 expected to launch in September, investors are watching closely for signs of how quickly the anticipated AI boost will start to show. Apple announced the new features, known as "Apple Intelligence", at its developer conference in June. A beta version of the AI-enhanced iPhone operating system, iOS 18.1, became available to developers this week. A deal with OpenAI will also give Apple users free access to ChatGPT, and Apple has explored partnerships with other big model providers such as Google. "The Apple intelligence rollout will provide something that we think is relevant for users and another compelling reason to upgrade," Maestri said. Recommended Richard Waters Even Apple cannot explain why we need AI in our lives Research and development expenses rose 8 per cent to \$8bn in the quarter. Maestri declined to comment on how much of this was spent on AI, including the infrastructure needed to train and run its own large language models. Apple plans to run those models on-device and in its own data centres, which it says will better protect users' privacy and data. "We have significantly increased our level of effort on AI over the course of the year," Maestri said. "We redeployed engi-

neering resources from other programmes to AI because we recognised the need and importance of this new tech.” Last month Apple’s new mixed reality headset, the Vision Pro, launched for consumers in Europe, China, Hong Kong, Singapore, Japan and Australia. Apple announced a dividend of 25 cents a share worth \$3.7bn for the quarter, with total shareholder returns rising to \$32bn when buybacks were included.

<https://www.ft.com/content/db0b3798-5c5d-4279-9f26-38b0e23136b1>

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