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An Introduction to Management Studies

Based on the St. Gallen Management Model

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Preface

Managing as a task and activity, *management* as an institution, and *managers* as actors are truly fascinating. Management carries both positive connotations — with design, responsibility, competition, and success — and negative ones — with mismanagement, excessive management salaries, or a lack of managerial responsibility.

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Various developments shape today's management:

- Professional management is gaining ground: not only in private-sector companies, but also in public administration, churches, and nongovernmental organizations. Managers are either undergoing further training or are being recruited from outside.
- The debate over management long focused on whether it is a science, a profession, or even an art for which people have a talent or not. Today, with the aforementioned development, management seems to be becoming more and more a profession in its own right, characterized by all the features of a professional community, such as its own language, habitus, values, and standards.
- Correspondingly, managers seem to be changing sectors a lot more than previously. In this context, the sector or industry seems to be losing importance as a reference point.
- Management is becoming ever more demanding given the increasing complexity of the global economy, trends in society, and the demands of the natural environment, technological change, and the associated increase in regulation. Today's world is now often referred to as a "VUCA world," characterized by volatility, uncertainty, complexity, and ambiguity.
- The call for integrative management is thus becoming louder. This integration is required with regard to various dimensions and tensions: from the concerns of different stakeholders to both the different functions in companies and the different time horizons of organizational development.

– With management becoming increasingly important in all areas of the economy and society, and given the increasing need for integration, managers must meet ever greater requirements in terms of responsibility and sustainability. Accordingly, the vision of the University of St. Gallen, which has one of the largest management faculties in the German-speaking world, is: *As a leading business university, we set global standards in research and teaching by promoting integrative thinking, responsible action, as well as an entrepreneurial and innovative spirit in business and society.*

For these reasons, this book does not provide an introduction to business studies, which mainly rests on functional principles. Rather, this book provides an introduction to management, which addresses the specific challenges, fields of tension, and tasks of an integrative management approach. The book builds on the tradition of the St. Gallen management models, which have provided several generations of students with an intellectual map for classifying and addressing management challenges.

This book is a required reading for all first-semester students attending the assessment year at the University of St. Gallen. It thus complements the textbook *Marketing Concept: The St. Gallen Management Approach*, which explores (1) value creation as an objective and as a field of managerial activity and (2) how to design the value chain. The book at hand highlights the management and support processes that every organization needs in an appropriate form. It also embeds management in the organizational environment and its societal demands.

This book emerged from teamwork pursued online during the COVID-19 pandemic. Our goal was to supplement online lectures with a self-study book. Since this is an introductory textbook, it presents topics in simplified form for the sake of didactic clarity. Only the most essential references are provided. The book is available in German and English (the latter version is primarily a translation of the German text).

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We have divided this book into six chapters, each corresponding to six lecture modules dealing with two main topics:

1. Integrative Management and Management Models
2. Decisions and Communication
3. Strategy and Development Modes
4. Structure and Culture
5. Leadership and Governance
6. Environment and Interaction Issues

Every chapter contains a short case study with introductory questions. The case studies are all linked to the University of St. Gallen: The companies discussed were either founded or are managed by HSG alumni. Each of these companies faces challenges, and experiences ups and downs. The case studies are short and thus do not illumine all facets of these companies. Instead, they provide illustrative material as a basis for discussing specific aspects.

Its concise format, practical examples, and topical references also make the book suitable as a "refresher course" for managers or as an introduction for career changers entering management.

The team of authors wishes to thank the over 20 lecturers teaching business studies in the University of St. Gallen's Assessment Year. We are grateful for their important input. We also thank the pioneers among the HSG faculty — Prof. Dr. Johannes Rüegg-Stürm and Prof. Dr. Kuno Schedler — who used to oversee the lecture series and who have made an essential contribution as well as provided inspiration. Many thanks to Margareta Brugger and Greta Gillet for editing the manuscript, to Barbara Bieger and Jay Binneweg for their attentive proofreading, and to Mark Kyburz for carefully editing the English version.

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Contents

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1 Integrative Management and Management Models

1.1 Case Study: On

On was founded in 2010 to revolutionize running experience. The idea was radical: soft landings followed by explosive push-offs (on-running.com). The three company founders were united by their love of running. Former professional athlete, three-time duathlon world champion, and multiple Ironman winner Olivier Bernhard came up with the idea of developing running shoes for the perfect running experience, along with Swiss ETH engineer David Allemann and HSG graduate Caspar Coppetti. They were driven by the mission "to develop a product range characterized by Swiss engineering" (on-running.com). Their running shoes are based on a proprietary, patented technology, so-called cloud technology.

The founding team is strongly cohesive, as company outsiders soon realize. It positions its innovative product in a global growth market (running shoes) estimated to have a volume of USD 20 billion per year (Müller, 2015). In doing so, the company pursues its growth strategy through penetrating the European market and through accessing new geographical markets overseas, beginning with a branch in Portland, Oregon (USA). Other target markets include Australia, Latin America, and Asia. To expand its product range, On launched its first clothing collection in 2016. The aim, as with its shoes, was to offer clothes that do not follow fashion and change every season. Despite this expansion, however, the focus has remained on shoes (Iseli, 2017).

On is headquartered in Zurich-West. Indirect distribution is handled by its subsidiaries, which in turn supply specialist retailers. End customers are served by independent specialist stores in the respective countries. On gears its pricing toward achieving premium positioning in its target markets. For example, its shoes are slightly cheaper in the USA than in Switzerland.

On's business processes are strongly oriented toward outsourcing and long-term cooperation. Design and development are based largely at the Zurich headquarters. Its shoes are produced by selected partner companies in Vietnam while logistics are handled and scaled by partner companies. On strongly emphasizes ongoing performance innovation. Thus, after developing its original model ("Cloud"), the company soon developed new products, including "Cloudflash," its fastest shoe ever. In order to cater to new trends, On has

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also developed specialized trail running shoes and benefits from sneakers becoming everyday shoes.

On's culture is sporty and creative. The company has no fixed offices and maintains contacts at sporting events. The founders are actively involved in employee meetings (Ruschmann, 2018). On cultivates its stakeholders foremost through personal contacts. Staff must fit the company culture and are addressed personally by the founders at employee meetings (see above). Staff and founders maintain personal contact with purchasers (i.e., specialist retailers) across the world. One example is jointly organized running events such as "Run to Switzerland." Organized in London, this event involved Londoners jogging together to the Swiss embassy. Other important stakeholders include manufacturers in Vietnam, which are carefully selected and required to meet high quality standards. On also boasts prominent shareholders including Roger Federer. However, the three founders still have unrestricted control over the company (Ruschmann, 2018).

In terms of the St. Gallen Management Model (SGMM), On can be described as follows (for an overview of the SGMM's task perspective, see Figure 1-1):

– Environmental spheres: Technological, economic and social environments are relevant, for example, to developing purchasing power in the target countries and to keeping pace with the trend toward running.

– Stakeholders: The main focus is on employees, end customers (runners), and direct customers (retailers). Other important stakeholder groups include service partners (for production and logistics) and financial backers (shareholders).

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– Interaction issues: The company's interactions with other actors (e.g., production partners in Vietnam) involve key issues such as ongoing innovation.

– Business processes: Disruption and differentiation occur along the entire value chain — from product through production to marketing, sales, and organizational form. Key processes: structuring the value creation process through product development and involving production partners; outsourcing production and logistics; distribution (i.e., imports and market development by subsidiaries); retailing via existing specialist dealer networks.

– Structuring forces: Organizational value creation is structured by various "forces" such as governance, strategy, structure, and culture. In a start-up, corporate governance is typically not yet well defined. At On, it is based mainly on a strong founding team with a clear purpose. On's strategy focuses on innovative running shoes and directly related products such as clothes; growth is achieved through market penetration, market development, and product range expansion. On is a flat and lean organization whose structure corresponds to the value chain. Its culture is innovative and sporty.

– Development modes: Continuous optimization and further development based, among others, on consistent internationalization (due to the small home market Switzerland), as well as on the scalability of systems and processes.

This case study was developed without the involvement of On using generally available sources. It introduces and illustrates the interrelationships within the St. Gallen Management Model.

Key Figures:

- On was founded in 2010 in Zurich.
- Approx. 1000 employees from 50 countries (ca. 40 % based in Zurich; another 5000 staff in outsourced production and logistics).
- International focus, only 5 % of sales in Switzerland; the largest markets are the USA, Germany, Japan, UK, Switzerland, Austria, and China.
- On is one of the fastest growing sports brands in the world; average revenue growth of 85 % per year since 2010.

Discussion Questions:

A. What key tasks does On's management face in the growth phase described above?

B. Create a system that describes On's dependencies on environmental spheres and stakeholders (i.e., how these forces impact the company).

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1.2 The St. Gallen Management Model as the Basis of an Integrative Approach to Management

Management is an action-oriented science. It deals with the organization and design of purpose-oriented socio-technical systems. Its strong practical relevance means that management science interfaces with a wide variety of disciplines (e.g., economics, law, sociology, psychology, ethics, engineering, and computer science). The term "management" derives from Latin *manus* (hand) and *agere* (to lead). Ultimately, "management" is about goal-oriented leadership. At the same time, "the management" means a community of managers in an organization.

Organizations are embedded in a diverse environment and face the demands of different stakeholders. They also involve division of labor and functionally differentiated value creation. Managers must (1) optimally configure short- and long-term organizational value creation in the face of a constantly changing environment and (2) critically question their own managerial activities in the process. To do so, they need an integrative approach (see Section 1.4).

The University of St. Gallen (HSG) has long taken an integrative view of management. The St. Gallen Management Model (SGMM) has served as an intellectual map for the academic and practical discussion of management in and of organizations for several generations (see Section 1.3). Despite the SGMM's continuous evolution, three elements have remained consistent: environment, organization, management. In the current version of the SGMM (Rüegg-Stürm & Grand, 2020), these elements are structured and detailed according to (among others) the following key categories:

Task perspective:

– *Environment:* environmental spheres, stakeholders, interaction issues.
– *Organization:* processes, structuring forces, development modes.

Practice perspective:

– *Management:* value creation, orientation framework, management practice.

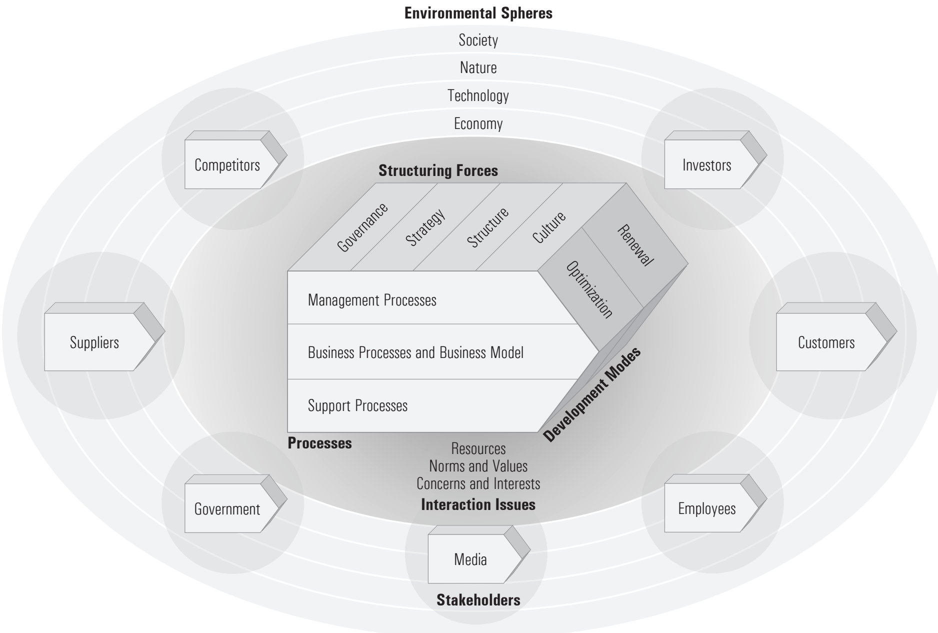

Figure 1-1: Task Perspective of the 2020 St. Gallen Management Model
Source: Rüegg-Stürm and Grand (2020)

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The introductory case study (see Section 1.1) illustrates the key categories of the task perspective (Figure 1-1). Below, the components of environment and organization are briefly presented as a repertoire for the further discussion of management. In the subsequent chapters, the task perspective is also supplemented by selected terms and concepts of the practice perspective (Figure 6-1) (for a comprehensive view of the current SGMM, see Rüegg-Stürm & Grand, 2020).

Environmental Spheres:
The current version of the SGMM highlights that organizations are embedded in and define their own environment (see Section 6.3.1). This environment contains different so-called environmental spheres: societal, natural, technological, and economic (Figure 1-1). The company is influenced by these spheres and in turn influences them. For example, an innovation in the environmental sphere technology (e.g., a newly developed production process) compels the company to change its own production in order to remain competitive. If, for ex-

ample, jobs are reduced as a result, and if different employee training profiles are required, this in turn impacts the company's societal environment. According to the SGMM, environmental spheres are spaces of opportunity for the company from which opportunities and threats arise. Organizations need the environment and its different spheres to tap the resources they need for their products and services, and that enable an organization to develop strategic competitive advantages. For example, proximity to a research institution facilitates innovation and staff recruitment.

Stakeholders:
Stakeholders are key to the organization's relationship with its environmental spheres (see Section 6.3.2). They are specific actors (individuals, organizations, etc.) that operate in the environment and place their own demands on the organization. Stakeholder participation (e.g., employees, customers, investors, suppliers, or even the state) is necessary for the company's survival. The most important task of management is to ensure cohesion among stakeholder groups (see Bleicher, 1991) and, in doing so, also to moderate conflicting goals between stakeholder groups. If, for example, in a crisis situation such as a pandemic, the company comes under economic pressure, management must decide how far it can accommodate employee demands (e.g., job preservation) without, for instance, jeopardizing supplier demands (e.g., cash flow). Because stakeholders are embedded in their environmental sphere, they also represent it. Environmental associations, for example, represent the natural environment; investors, suppliers, and customers the economic environment; the state and media the societal environment. Corresponding relationships with its environment enable the organization to tap the necessary resources via stakeholder groups. Media relations allow the organization to strengthen its reputation while investor relations contribute to raising capital. Good customer relations are essential for selling products and services, stable supplier relations for reliably providing the necessary components.

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Interaction Issues:
Interaction issues (see Section 6.3) are those topics that an organization negotiates with its stakeholders and that represent the organization's interrelations with its respective environmental spheres. For example, natural resources are at stake when a company needs more land to pursue an expansion project. Norms or values are at stake when a company negotiates leadership principles and its future strategic direction with employees. State concerns and interests vis-à-vis investors are at stake when stock corporation law is under review, and thus the voting rights of individual shareholder categories.

Processes:
Processes can be defined as sequences of activities (see Section 1.5.2). The central processes of companies are business processes (see also Bieger, 2019). These include service creation processes (i.e., what the company actually produces), service innovation processes, and customer processes. The latter comprise customer acquisition, customer loyalty, and reputation processes. Management processes include those processes that serve to steer the company as a system, as well as its relationships with the environment. These require communication and decision-making skills and techniques (see Section 2.2). Support processes are functions that indirectly support business processes (e.g., financial management processes and human resources processes).

Development Modes:
Because the environment is dynamic, organizations need to keep evolving. In terms of development modes (see Section 3.7), two types of organizational change are distinguished. One is the continuous optimizing of current operations. The other is renewing the organization or parts of it by challenging the status quo. Optimization presupposes an existing structure, whereas renewal also involves structural change. A production line in the automotive industry, for example, can be improved step by step in terms of throughput times by fine-tuning the individual production steps (grinding, gluing, coating, etc.). However, it can only be changed fundamentally (e.g., adapted and converted to a new propulsion technology such as electric drive) at considerable expense and time. Companies often switch between these two modes. If a value creation system has been reconfigured (renewal), it subsequently requires a phase of optimization and structural stability. In management, these two modes often occur in parallel. Optimization decisions must be taken while questioning the status quo.

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Structuring Forces:
Structuring forces ensure the necessary basic order in the form of governance, a development direction defined by the strategy, an organizational form geared toward strategy implementation, and a system of norms and values defined by the culture.

– *Governance* (see Section 5.6) ensures the prerequisites for management and strategic capability by defining a suitable company purpose, management resources, division of powers, and processes: Governance defines the roles, rights and duties of management, as well as an organization's normative orientation, i.e. its vision and mission (Rüegg-Stürm & Grand, 2020).
– A *strategy* (see Section 3.2) can be designed only if an organization's long-term pupose is clear. A sports infrastructure facility, for example, needs to determine whether it is a health or a leisure company. This decision defines the fields in which a strategy is searched for (e.g., identifying new products). The purpose of strategy is to ensure competitiveness. To this end, strategic success factors are developed either within ("inside out," e.g. core competencies) or outside the company ("outside in," e.g. market positionings).
– An organization's *structure* (see Section 4.2) must be aligned with the strategic success factors according to which the organization needs to define its processes and to design its strategy to optimally support those processes (Osterloh & Frost, 1996). If, for example, a company defines its ability to adapt service processes as optimally as possible to customer needs as its central strategic success position, it will focus on customer-oriented service processes. Consequently, the organization will need to align itself according to customer groups as its primary ordering criterion, possibly by defining its main departments according to customer groups.

– Structure and *culture* correlate (see Section 4.6). For example, a strong hierarchical organization results in a culture of control, which in turn impacts the organization's functioning. The culture, in turn, must be consistent or at least compatible with the company's purpose.

These considerations, and the logic of the SGMM, lead to several basic management tasks that every organization must fulfill (Figure 1-2).

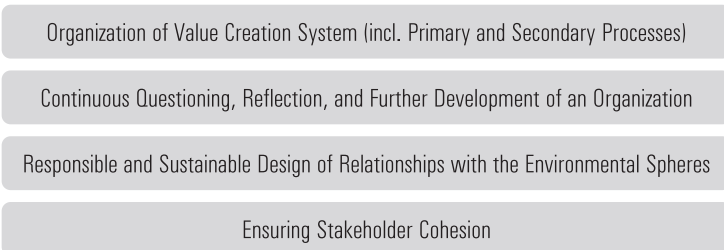

Figure 1-2: Basic Tasks of Management
Source: adapted from Rüegg-Stürm and Grand (2020)

1.3 Development of the St. Gallen Management Models

The latest version of the SGMM (introduced here) continues a 50-year tradition of systematically developing management at the University of St. Gallen. This began with the aspiration to create an "empty" framework in which to create meaning (Ulrich & Krieg, 1972). This framework (or "scaffold") as such provides a structure for classifying problems and thus facilitates discussion. Like every model, it is a simplified representation of reality that needs to be concretized for the corresponding purpose.

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1.3.1 First-Generation SGMM

Already the first-generation SGMM, developed in the early 1970s, was guided by the idea of an open-minded approach to problems rather than a recipe-like imparting of knowledge (Ulrich & Krieg, 1972, p. 9). The model was based on systems-oriented business studies, which conceptualized companies as systems. The authors described systems thinking as holistic, process-oriented, interdisciplinary, analytical, synthetic, and pragmatic thinking (Ulrich & Krieg, 1972). Their approach took integrative thinking into account, while facilitating a cross-functional and cross-subdisciplinary approach to practical issues.

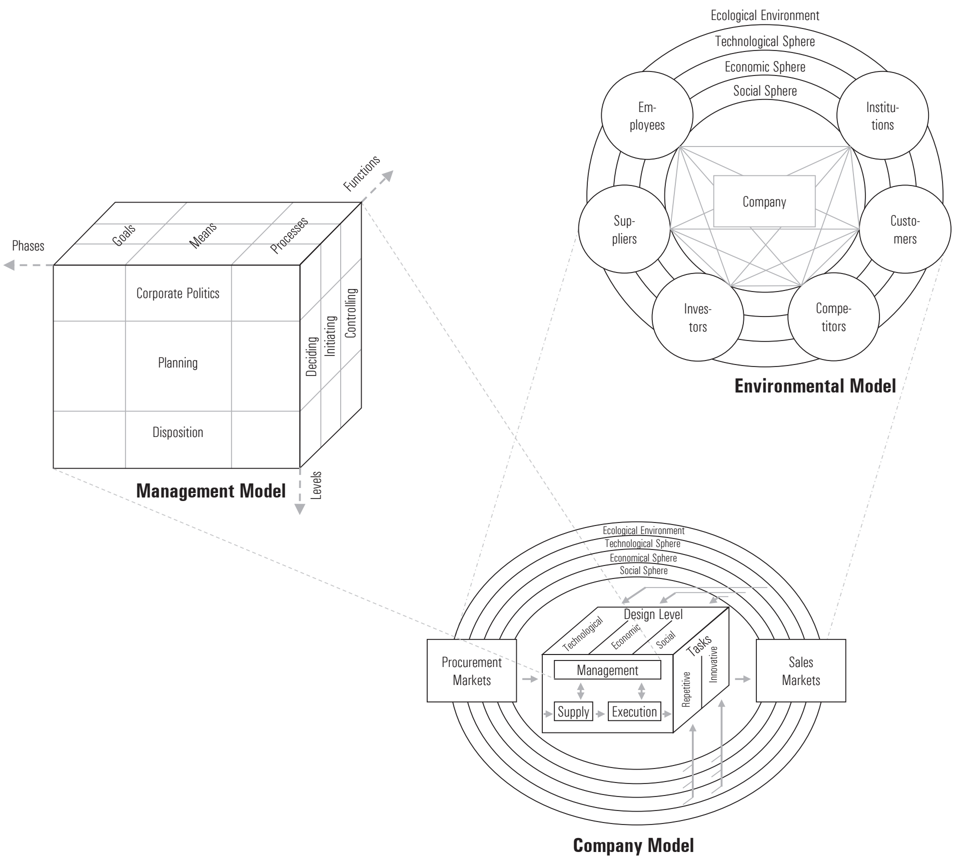

Figure 1-3: First-Generation SGMM: Management Model, Environmental Model, Company Model

Source: Ulrich and Krieg (1972, pp. 20, 27, 31)

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The first-generation SGMM has three parts: the company model, the environmental model, and the management model (Figure 1-3). The aim was to support management by representing the enterprise both as a productive and as a technical system, and by providing a tool for its analysis.

In the *company model,* the following five approaches were analyzed in more detail (Ulrich & Krieg, 1972):

- The company's environment (stakeholders, environmental spheres)
- Markets and market performance (procurement and sales markets, resources and market performance)
- Functional areas (execution area, supply area, management area)
- Design levels (technological, economic, social)
- Structuring of tasks: repetitive and innovative tasks (preservation and renewal).

The *environmental model* with the environmental spheres and stakeholders is still part of the current SGMM.

In the field of corporate management *(management model)*, three classification criteria were used (Ulrich & Krieg, 1972):

- Management levels (corporate politics, planning, disposition)
- Management phases (goals, means, processes)
- Management functions (deciding, initiating, controlling)

These structuring approaches recurred similarly in the subsequent generations of the SGMM. Over time, the model was repeatedly adapted to current findings in business studies and to management challenges.

1.3.2 Second-Generation SGMM

Bleicher (1991) titled the second-generation SGMM "The Concept of Integrated Management." He highlighted Ulrich and Krieg's (1972) holistic approach and explicitly addressed integrated management. The second-generation SGMM thus claimed to meet the requirements of a paradigm shift toward an understanding of management that consciously deals with increased complexity and the dynamics involved (Bleicher, 1991, p. 147). In the early 1990s, a new world order became foreseeable, following the collapse of the former Soviet system and of centrally planned economies, as well as important technological innovations, for example, in the IT sector. Thus, the second-generation SGMM introduced the system levels discussed at that time (Schwaninger, 1988): the *normative, strategic,* and *operational* dimensions (Figure 1-4).

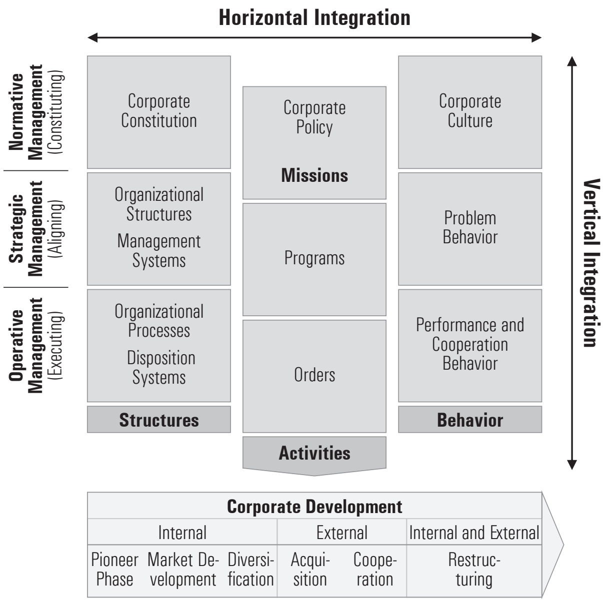

Figure 1-4: Second-Generation SGMM: Normative, Strategic, Operational Levels of the Organization

Source: Bleicher (1991)

1.3.3 Third-Generation SGMM

Rüegg-Stürm (2003) developed the third-generation SGMM as part of a curriculum redesign of business studies at the University of St. Gallen. His model served as the basis for an introductory textbook on business studies (Dubs, Euler, & Rüegg-Stürm, 2004, p. 8). Essentially, the key topics corresponded to the dimensions identified in the first-generation SGMM (Figure 1-5):

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- Environmental spheres
- Stakeholders
- Interaction issues (resources, norms, values, concerns, and interests)
- Structuring forces (strategy, structure, culture)
- Development modes (optimization, renewal)

In line with recent findings in business studies (see also Porter, 1985; Osterloh & Frost, 1996), these dimensions were supplemented by a process-oriented view. This replaced the functional view and distinguished business processes, management processes, and support processes, as well emphasized the importance of communication for performing management tasks.

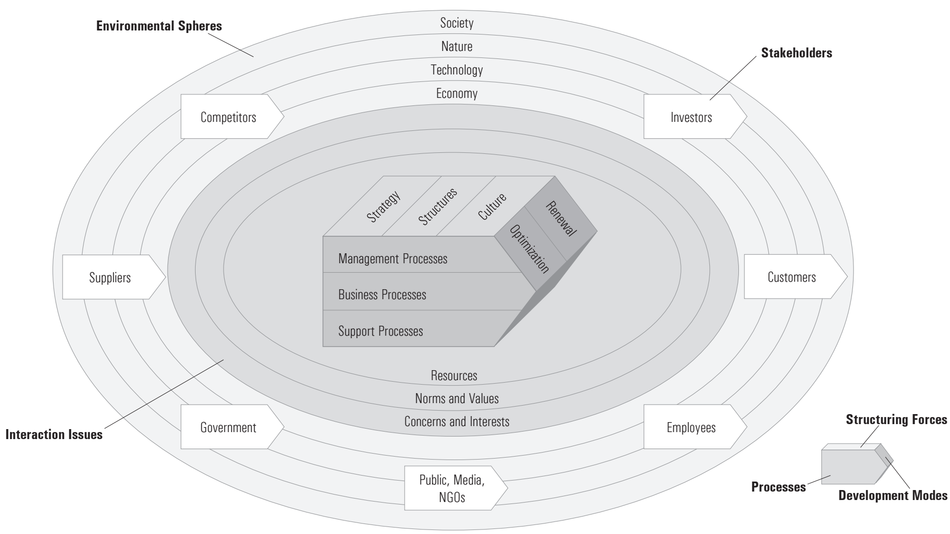

Figure 1-5: Key Visualization of the Third-Generation SGMM
Source: Rüegg-Stürm (2003, p. 22)

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1.3.4 Fourth-Generation SGMM

Rüegg-Stürm and Grand (2017) conceived the fourth-generation SGMM as a renewed attempt to develop a language for reflecting on, discussing, and dealing with the complexity facing management practice (Rüegg-Stürm & Grand, 2017, p. 2). They defined management as a reflective design practice aimed at supporting entrepreneurial tasks and challenges. The fourth-generation SGMM complements the third generation's process orientation by highlighting systematic reflection and ongoing enactment as core management tasks. The main reason for this emphasis is the increasing complexity, uncertainty, and dynamics of today's world. These factors require organizations and their managers to incorporate the expected consequences of their own actions into their decision-making, which is subject to great uncertainty today.

The fourth-generation SGMM (Rüegg-Stürm & Grand, 2017), introduced briefly above (Section 1.2), has been operationalized since 2019 by adding a working tool (see Rüegg-Stürm & Grand, 2020). Its "*task perspective*" (Figure 1-1) comprises the same six key categories as the third-generation SGMM (environmental spheres, stakeholders, interaction issues, processes, structuring forces, and development modes). Its "*practice perspective*" contains four categories:

- Value creation (differentiation, resource configuration, value creation processes, decision-making practice, relationship culture)
- Orientation framework (operational, strategic, and normative orientation)
- Management practices (managerial communities, design platforms, design practices, language of reflection).
- Environment (environmental spheres, stakeholders, conditions for existence)

This latest edition of the current SGMM (Rüegg-Stürm & Grand, 2020) is intended to supplement to the basic textbook (Rüegg-Stürm & Grand, 2017) in the sense of a didactic working tool and as a means of reflecting more in-depth on management.

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1.4 Integrative Management

The St. Gallen tradition has consistently understood management as integrative. Integrative management can be defined as the design and steering of an organization as a purpose-oriented socio-technical system that consciously and responsibly handles significant force fields and conflicting goals (Bieger et al., 2021). These force fields and conflicting goals include the different perspectives of the individual corporate functions, but also different stakeholder expectations, or the deliberation between short-term, operational, and long-term strategic views, and, in particular, an integrated execution of all management tasks (analysis, planning, control). Management models, as simplified representations of a complex reality, are intended to support managers in performing these tasks.

1.4.1 Origins of Integrative Approaches to Management

Developing a new product requires the interaction of various factors: marketing (incorporation of customer needs), development, production, finance and controlling (securing the necessary investments), and compliance (with rules and legislation). In contrast, preparing a company takeover requires finance and compliance specialists to provide valuations and due diligence (careful examination of the acquisition object), to draft contracts (legal competence), and to support internal and external communications (communication competence). These two examples show that an integrative view is necessary for solving management tasks at every level of the organization. This principle applies not only to the required competencies and the associated corporate functional areas, but also to assessing how one's own actions impact the various environments and stakeholders. Actors must also take into account the short- and long-term consequences of their actions — which points to the three dimensions (functions, stakeholders, time horizons) of integrative thinking.

Accordingly, various exponents of classical management research (e.g., Peter Drucker and Henry Mintzberg) followed an integrative approach. For example, in Concept of the Corporation (first published in 1946), Drucker described management as "a specific organ doing specific kind of work and having specific responsibilities" (Drucker, 1993). In his view, the rise of management as a discipline is probably the most important development in the 20th century: "In this centu-

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ry, society has become a society of organizations. Every major social task in this society is being performed in and through large, managed institutions" (Drucker, 1973, p. 545). Other scholars have also highlighted that management is a decision-making and acting organ, i.e., actor. For instance, Henry Mintzberg's remarkable Mintzberg on Management (1991) describes how managers cope with various tasks at the same time. Based on an observational study, he concludes that managers briefly hold problems in their hands like a juggler, before processing and sending them back into "orbit" for further processing (Mintzberg, 1991, p. 33).

St. Gallen management research has also explored the needs and requirements of management as an acting organ. Thus, Ulrich, Krieg, and Malik (1976) observed that "the purpose of business studies is to provide actors with the knowledge needed in specific problem situations" (p. 135).

Thus, in order to best serve management and managers, researchers often prioritized "relevance" (i.e., whatever serves life and efficiency) over "rigor" (i.e., scientific substantiation) — well, at least until business studies also began developing a stronger scientific approach. For instance, Gulati (2007, p. 776, based on Gorden & Howell, 1959; Pierson, 1958), noted that "The question first arose in the 1950s and 60s with multiple voices suggesting that management research was aspiring to be relevant at the expense of the rigor observed in other social sciences" (see also, e.g., Gordon & Howell, 1959; Pierson, 1959). There was an increasing orientation toward social science principles and theories, for example, from economics or sociology. One example was the development of strategies based on industry economics such as economies of scale, economies of scope, and economies of density. This approach was associated with a differentiation of management research, as evident in various disciplines. More and more, research became oriented toward individual functions and subdisciplines. For example, marketing as a research area differentiated itself as part of business studies; within marketing, other research areas (e.g., customer insight or brand management) emerged as subdisciplines with their own research communities.

While this stronger scientific orientation enabled placing findings more strongly on micro-foundations, it made a deeper problem orientation more difficult (Nickerson & Argyres, 2018). For example, marketing research developed increasingly sophisticated explanations for constructs and theories such as perceived fairness or perceived customer value. However, 1980s heuristics (e.g., the dominance standard model) are still used in practice to tackle essential questions such as designing an integrated marketing mix (cf. Kühn, 1985).

1.4.2 Management as a Profession

This progressive differentiation of management as an independent activity and the specialization of management knowledge are also reflected in management practice. Management is developing into a profession in its own right, one based increasingly on scientific principles. It is also seen more and more as an activity that is not only necessary for companies, but which is also penetrating ever wider areas of business and society. Management methods are increasingly entering public administration, churches, the military, and nongovernmental organizations. Many such organizations long considered management a kind of "art" (Lynn, 1996). In hospitals, for instance, chief physicians or chief medical officers were typically entrusted with running the organization: They were considered best suited to management tasks on account of their personality or life experience (e.g., in the military).

Today, management is a profession in its own right. In Bourdieu's sense, it possesses characteristics typical of professions: an independent language, independent rituals, and professional values (Bourdieu, 1972). Today, managers are prepared for their duties and responsibilities in management training courses. Managers also switch between different companies, industries, regions, and cultures. Today, not only professional managers move from airlines to pharmaceutical companies, but professional deans move between universities in different countries and cultures.

Combined with the specialization of management research, and because ever-increasing management tasks also demand a division of labor and thus the specialization of management itself (Rüegg-Stürm & Grand, 2019a), an increasing function orientation has also emerged in practice. For functions such as human resource management,

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marketing, strategy management or financial management, independent research institutes, chairs and education programs have developed in undergraduate and graduate education (Figure 1-6).

Focus	Research Areas (e.g.)	HSG Representatives (e.g.)
Financial Leadership	Financial Management (Accounting / Auditing)	Institute of Accounting, Control and Auditing Institute of Public Finance, Fiscal Law and Law and Economics
Technology / Innovation / Logistics	Technology Management / Innovation Management / Supply Chain Management	Institute of Technology Management Institute of Management and Strategy Institute of Supply Chain Management
Entrepreneurship	Entrepreneurship / Small and Medium-Sized Enterprises / Family Business	Institute of Technology Management Swiss Research Institute of Small Business and Entrepreneurship
Communications	Media Management / Communications Management	Institute for Media and Communication Management
Information Technology	Business Information Systems	Institute of Information Management
Strategy / Risk	Strategic Management / Risk Management	Institute of Management and Strategy Research Institute for International Management Institute of Insurance Economics
Leadership / Organization	Human Resources Management / Leadership / Organizational Behavior	Institute for Work and Employment Research Institute for Leadership and Human Resource Management Institute for Systemic Management and Public Governance Research Institute for Organizational Psychology
Market and Customers	Marketing / Customer Insight	Institute for Marketing and Customer Insight Institute for Mobility Institute for Systemic Management and Public Governance Institute of Retail Management
Teaching / Training	Business Education	Institute of Business Education and Educational Management Institute for Educational Management and Technologies
Sustainability	Sustainability Management	Institute for Economy and the Environment

Figure 1-6: Chairs at the University of St. Gallen School of Management (2020)

This differentiation is also reflected in the development of university courses. In the 1970s, many universities still offered courses in economics that integrated business studies and economics. These subject areas later became separate programs. Since the introduction of the Bologna system in early 2000, degree programs specializing in certain functions (e.g., strategy, marketing, accounting and controlling) are now offered, especially at the master's level. In further education, certificate courses are offered, sometimes by professional associations, such as the CFA (Chartered Financial Analyst) or the CMA (Certified Marketing Analyst). Such courses enable further professional specialization. In some countries, they are also a legal prerequisite for holding management positions in companies (e.g., in accounting and finance).

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1.4.3 Dealing with Complexity

The demand to overcome functional silos or, in research, subdisciplinary silos has received attention early on (e.g., Aldrich & Herker, 1977). Research, for instance, often faces critique for pursuing increasingly specialized research questions (e.g., consumer behavior in isolated laboratory settings), and for neglecting the integrative issues challenging top managers and demanding a cross-disciplinary perspective. Practice shows that top managers must ultimately "integrate" the increasingly specialized management of individual functions. This, in turn, might overwhelm managers and increase the number of staff functions.

Thus, conflicts may arise between departments: for example, between the marketing function, which demands greater production flexibility in line with customer needs, and production, which wants the greatest possible standardization for reasons of efficiency. If incentive mechanisms (e.g., profit-sharing schemes for executives) are geared toward the success of one's own department, fighting one's own corner might take priority. Top management then needs to integrate competing views and optimize the overall system. To do so, it needs information, which in turn must be obtained from management staff.

This isolated optimization of individual functional areas, and the elaborate overall coordination required at the highest level, also reduces the agility of organizations. Integrative management is needed more than ever in today's "VUCA age." VUCA stands for "Volatility, Uncertainty, Complexity and Ambiguity" (Bennett & Lemoine, 2014). Today, developments are volatile because manifold shocks, for instance, in the financial markets, politics, or health, may strike home swiftly and simultaneously across the world. This sheer prospect causes uncertainty. Ever more at least seemingly contradictory goals (e.g., simultaneously achieving low-cost production and environmental protection), or the demand for high-performance teams and achieving work-life balance at the same time, create ambiguities and thus also complexity for management. Management needs to deal with these force fields and to define integrative solutions and approaches.

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Various authors have identified management practices and tools for overcoming the boundaries between professional communities and disciplines (Spee & Jarzabkowski, 2009; Levina & Vaast, 2005). Certain practices and tools (e.g., guided future workshops), or working tools (e.g., business planning or management models like the SGMM), have been found to facilitate the integration of diverse views.

Other approaches to promoting a more inclusive view (e.g., in strategy theory) have highlighted the importance of asking the right questions. For example, Nickerson and Argyres (2018) emphasize that avoiding Type III problems requires careful problem formulation. In this categorization, Type III problems involve situations where solutions are developed for the wrong problem (i.e., when the actual problem could not be identified). Integrative management is enabled and stimulated by asking broad, unconventional questions.

Working in groups is also important. These should be as diverse as possible (e.g., company members should represent different functional areas, as well as different cultures, genders, etc.). Groupthink should be avoided (i.e., overly focusing on group needs, especially group harmony). Instead, group members need to exchange ideas about each other's perspectives on the problem at hand.

1.4.4 The St. Gallen Approach

The systems approach has remained central to St. Gallen management research (Bieger et al., 2021). Together with cybernetics (steering of complex systems), the systems approach was developed in the 1960s, as part of the debate on limited resources (see Meadows, Meadows, Randers, & Behrens, 1972), which ushered in an intensified search for integrative approaches. Important foundations were laid by Beer (1959) and Vester (1968). In St. Gallen, Ulrich (1968) pursued these approaches, which were later followed and further developed by different researchers in different subfields (e.g. Kaspar, 1996, on tourism). Systems thinking (see also Luhmann, 2002) was also treated as a new method, almost as a new paradigm (Kuhn, 1969).

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Beer's (1959) work helped to establish rules for viable (and thus developable) systems based on cybernetic principles. The considerations and laws emerging from this research still shape management practice today, including the need to address organizational survival on different system levels (see e.g., Schwaninger, 1988). The three main management levels (Figure 1-7) — with their respective orientation bases, target categories, reference variables, and time horizons — have been integral to the SGMM since its second generation. Systems thinking continues to shape business studies research and teaching at the University of St. Gallen. Examples include Bleicher's description of companies as socio-technical systems (Bleicher, 1991) or Gomez's practical approach to solving management problems using integrated (networked) thinking (Probst & Gomez, 1991).

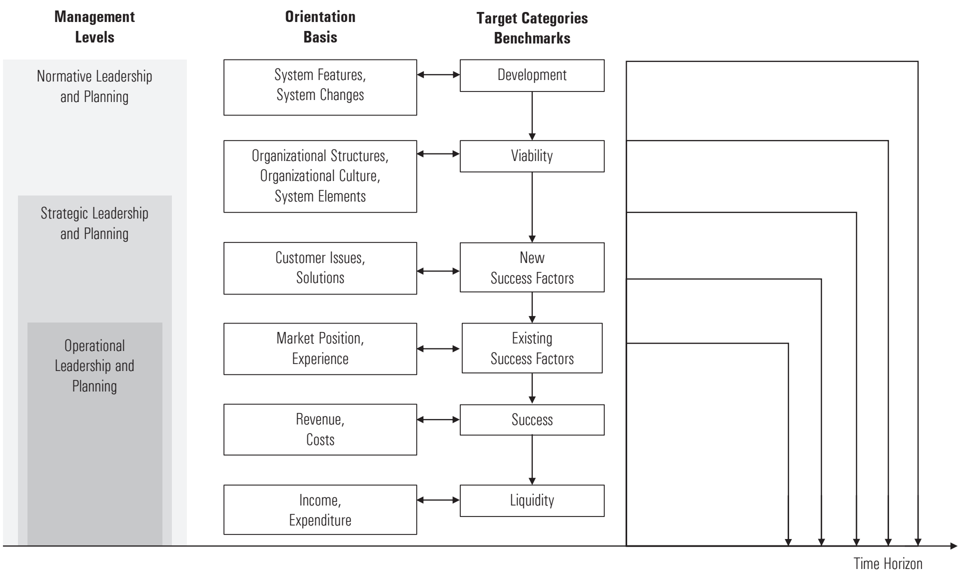

Figure 1-7: Integral Planning with Orientation Bases, Target Categories, Reference Variables, and Time Horizon

Source: Schwaninger (1988, p. 126)

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Another outcome of systemic approaches is Ashby's Law (Ashby, 1985). This states that a variegated complex system also needs to be governed by an equally variegated and complex control system. For instance, if a team conflict occurs in an R&D department, it is not enough to simply remove the greatest "rebel." Any team is a complex system, in which social relationships coincide with knowledge relationships, hierarchical dependencies, and project processes. The team as a system is characterized by different interconnected levels. Thus, the social system is strongly influenced by the interactions necessary for project processes, which in turn are influenced by the hierarchical system. Appropriately intervening in these conflicts requires analysis on all three system levels. Measures are also needed on the different levels, such as staff measures on the social level combined with changing project structures and simultaneously adjusting the management culture.

1.5 Thinking in Systems and Processes

As mentioned, thinking in systems and processes is a cornerstone of the St. Gallen Management Model. Systems thinking claims to enable interdisciplinary perspectives. Process thinking is intended to interconnect individual functions. In a value creation process, for instance, this would involve purchasing, production, and marketing. Accordingly, many companies are also no longer organized by functions but by performance processes, which enables overcoming functional thinking silos. Instruments such as working with networks in integrated problem solving (Probst & Gomez, 1991), or using process maps to handle complex issues, resemble "boundary-spanning objects" (see Spee & Jarzabkowski, 2009). Below, we present the essential characteristics of systems and processes.

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1.5.1 System View of Organizations

Ulrich (1968, p. 105) defined systems as an "ordered totality of elements between which relationships of some sort exist or can be established." These elements can be represented by graphs in which arrows show the relationships between elements (Figure 1-8).

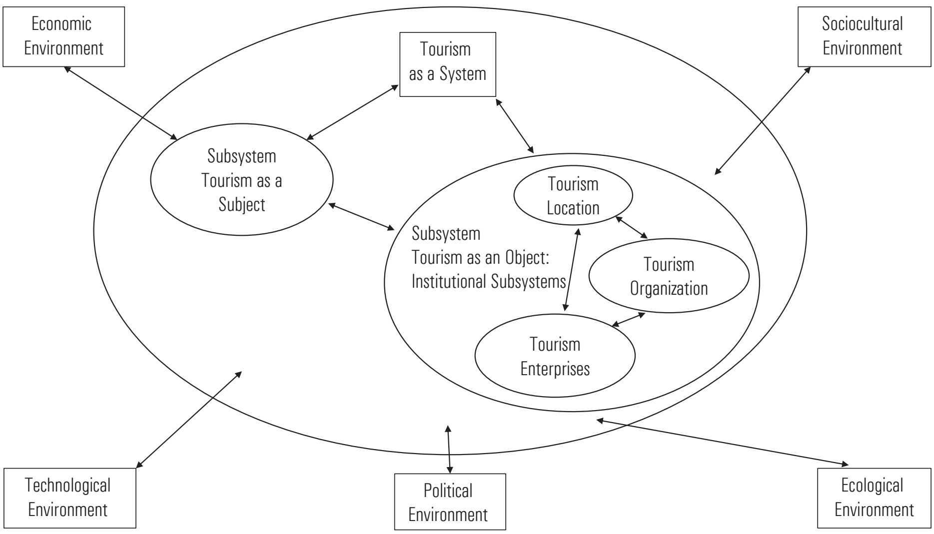

Figure 1-8: Tourism as an Illustrative Example of an Open System
Source: Bieger (2010, p. 64); based on Kaspar (1996, p. 12)

Different types, each describing the structure of systems and often represented as networks, are evident (see also Bieger, Pechlaner, Liebrich, & Beritelli, 2004). Thus, star networks, on the one hand, and mesh networks, on the other, are extreme cases (Figure 1-9). Pure *star networks* are centered on one element that "controls" the network, so to speak. Network development, however, also depends on the capacities of this central element. Consider logistics networks: For example, the hub-and-spoke networks of airlines handle traffic via a central hub (i.e., an airport offering transfer connections). Other examples include management consulting teams or the classical structures of academic chairs at universities, where all communication and working relationships are steered and thus also monitored by the managing partner or the chairholder (full professor).

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In *mesh networks,* relationships exist between different elements. In extreme cases, every element is connected with all others. The advantage of such systems is their redundancy. If one element fails, its functions can be performed by other elements. This basic idea also underpinned the development of the World Wide Web. In previous IT structures, remote terminals were connected to a central computer. If this failed (e.g., due to a terrorist attack or a technical fault), the entire IT system was paralyzed. Initiated by the military, the development of the World Wide Web sought to create an IT system that would continue functioning even in adverse cases because all computers were interconnected (see Deitel, 2012). On the downside, these systems are difficult to control because the central node through which everything could be controlled is missing.

A special case of the mesh network is the *grid network.* This consists of a rectangular network whose elements are connected to their neighboring elements on all four sides. If one of the nodes in a grid network fails, it is possible to switch to parallel connections. This explains why grid networks are often used in road and traffic planning.

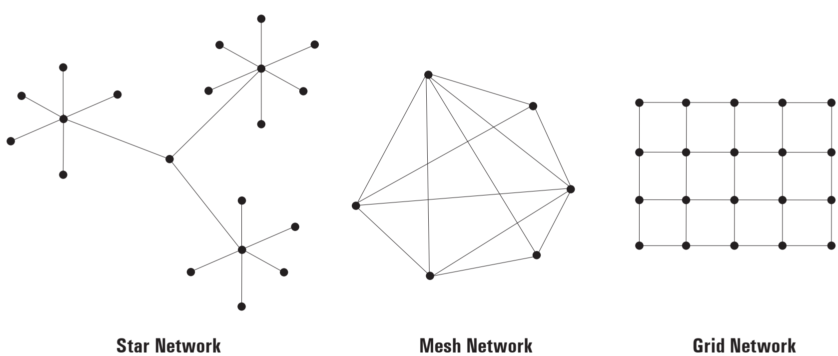

Figure 1-9: Exemplary Types of Networks to Represent Systems.

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Every organization consists of different system levels (see, e.g., Schräder, 2000, p. 153). For example, a socio-technical organization such as a hospital has the following levels:

– a *logistical level* on which patient flows occur and on which different service elements (e.g., radiology department, laboratory, operating rooms) are combined to form a specific service chain for patients;
– an *information level* on which patient data are collected and made available in close conjunction with the logistical level;
– a *financial level* on which the financial flows between the different elements take place (e.g., the billing of services from the X-ray department to the treating ward and the individual patient);
– a *hierarchical level* consisting of reporting relationships and cooperation structures (e.g., in projects);
– a *social level* comprising personal and business acquaintances and informal communication relations.

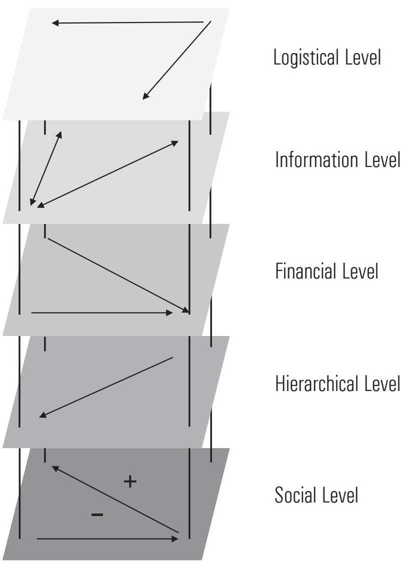

Figure 1-10: Schematic Representation of System Levels Using the Example of a Hospital

Source: Bieger (2010, p. 75)

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These different levels influence each other (Figure 1-10). Thus, good interpersonal relations between two department heads positively impacts the logistical level by facilitating cooperation.

Systems can also be distinguished according to whether they are trivial or complex (von Foerster, 1993). *Trivial systems* are characterized by their stability (i.e., the same relations always exist between the same elements). Thus, one element has a stable effect on another: For example, if one element grows, the other element also grows. Many logistics systems are trivial systems — for instance, a firmly coupled value chain supplying glasses and involving a stable relationship between the suppliers of semi-finished products, manufacturing, and delivery to retailers. Such systems can be easily analyzed and controlled. In terms of Ashby's Law (Ashby, 1985), their variety is low, meaning the entire system can be controlled with individual interventions (e.g., changing production capacity).

Matters are different with *complex systems.* These are characterized by:

- *Openness.* Complex systems constantly receive external impulses. As a socio-technical system, a company is affected, for example, by cultural values changing in its social environment, which in turn change employee behavior.
- *Structural instability.* The system restructures itself continuously, as individual elements or relationships emerge or disintegrate. For example, when communication relationships between individual organizational members stall in a hierarchical system due to conflicts, or even when leading figures are dismissed as a result of these conflicts and thus cease to be system elements.
- *Tilting effects.* The relationship between the elements is nonlinear, allowing tilting effects to occur. This happens, for example, when a management relationship is too strongly focused on performance and control, and intrinsic motivation suddenly vanishes as a result.
- *Multilayeredness.* The elements change their mode of action and behavior, especially if they are affected by changes on another impact level or by another system. If a manufacturing department

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reduces maintenance due to cost-cutting measures (impact of the financial level), and malfunctions become more frequent as a result, this in turn impacts the system's logistical level.
– *Historicity.* Complex or nontrival systems are historical. Their current state and way of operating depends — among other aspects — on their past. Basically, any event or decision can alter the current state and way of operating. Vice versa, historicity also means that prior decisions inform current and future ones. So-called path dependencies can occur. For example, an organization keeps using a certain software package, even though more potent alternatives have become available in the meantime.

Consequently, the behavior and development of complex systems are *very difficult to predict*. This is also evident, for example, in the case of a pandemic. Whereas virus propagation can be definitively modelled under stable (i.e., "biological," laboratory-based) conditions, this is more complex for the living world where many system levels interact. Even at the biological level, nature is open-ended. Viruses can be carried into a country or jump between living beings. Human behavior results not only from events on the biological level, but also very much from those on the economic, political, and societal level (strength of the economy, trust in authorities, local culture of dealing with each other).

Similar interactions apply to companies if, for example, a business model that is consistent at the logistical and financial levels cannot be implemented because external influences (e.g., political conflicts) cause resistance at the social and emotional levels. Systemic analyses help to describe, model, and thus explain how companies and organizations behave in their environment.

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1.5.2 Process View of Organizations

Processes can be defined as a sequence of activities leading from one or more types of input to an output (see Porter, 1985) (Figure 1-4). The foundation and primary process of every organization is value creation. An organization defines itself in terms of its services. This orientation toward the customer value of a service is represented by the business processes at the heart of the St. Gallen Management Model (SGMM).

A value creation process must increase value between input and output (Figure 1-11). This value can be material (i.e., monetarily calculable) because input and output are traded on markets and thus have a price. This value creation can be distributed to stakeholders or used to further develop the company (Bieger, 2019). Value, however, can also be intangible, for example, when volunteer work enables care services or cultural creation unavailable in this quality on the market. Value is then designated, for example, via the required input (i.e., the amount of work) (for a critical exploration of value concepts, see Mazzucato, 2018).

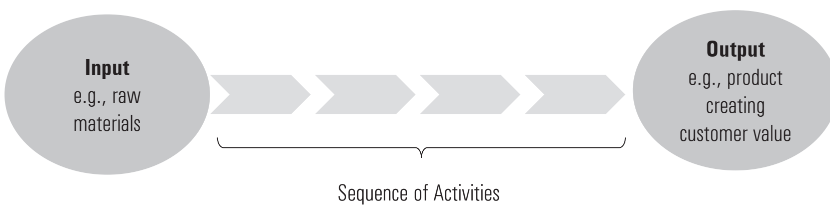

Figure 1-11: Illustrative Process Chain

Besides the necessary steering of process activities (coordinating capacity and quality, etc.), the following aspects of value creation processes are of interest from a management perspective:

– Value chains tend to be restructured on an ongoing basis. Environmental changes (e.g., new technology or changed prices for input factors) mean that activities need to be carried out differently or that value chains may even need to be reconfigured. For example, “print on demand” makes stocking spare parts unnecessary.

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- Value chains tend to become increasingly differentiated and specialized as a result of the underlying "economies" (e.g. economies of scale).
- Additional value (e.g., boosting the attractiveness of a region by creating jobs and paying taxes) is created beyond primary value creation (Figure 1-12).

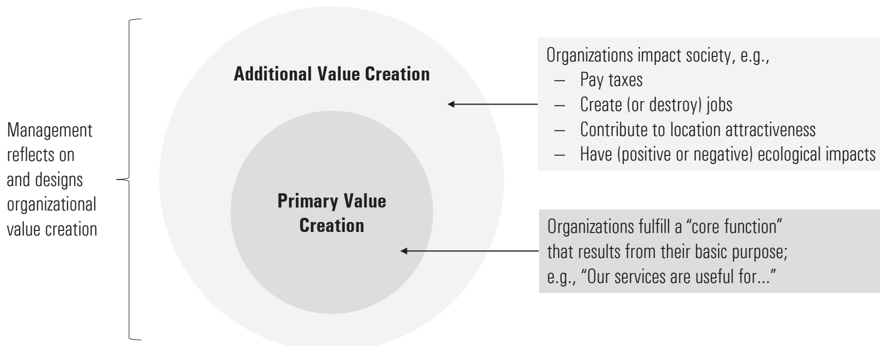

Figure 1-12: Differentiation of an Organization's Primary and Additional Value Creation.

A process view of a company helps to optimize interactions between individual processes across functions. Porter's (1985) basic process model of a company distinguishes primary and supporting activities. The former focus on the value creation process, while the latter establish the prerequisites (Figure 1-13).

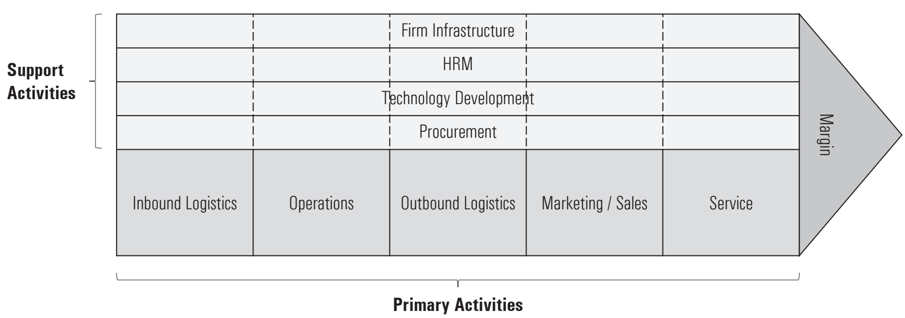

Figure 1-13: The Value Chain

Source: Porter (1985, p. 37)

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For complex projects (e.g., purchasing a subsidiary) but also for complex service processes (e.g., recruiting a new executive, installing manufacturing machinery), process planning models are developed with the help of different techniques.

So-called "service blueprints" are often used to represent to-be processes (ideal situation). This normative design instrument is used to show various levels as well as a so-called visibility line. At the top are the customers or the physical points of contact with them (Figure 1-14).

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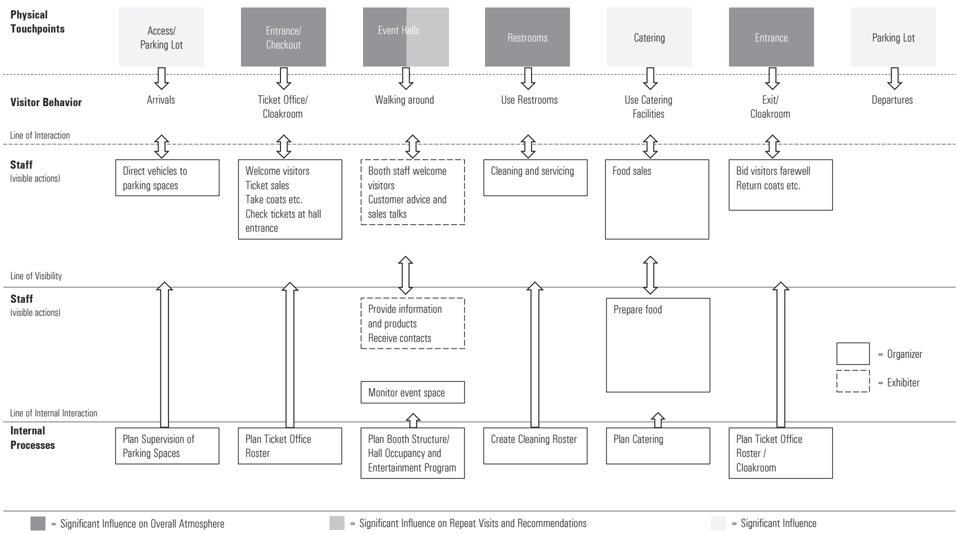

Figure 1-14: Illustrative Service Blueprint: The Example of a Public Trade Fair

Source: Wiedmann and Kirchgeorg (2018, p. 56)

Process maps, for example, can be used to show as-is (i.e., real) processes. These descriptive recording instruments enable empirically recording processes (i.e., as existing in reality) and displaying them as a process diagram (Figure 1-15). These process maps provide the basis for continuously improving such sequences of activities, because they illustrate the interdependencies of these activities.

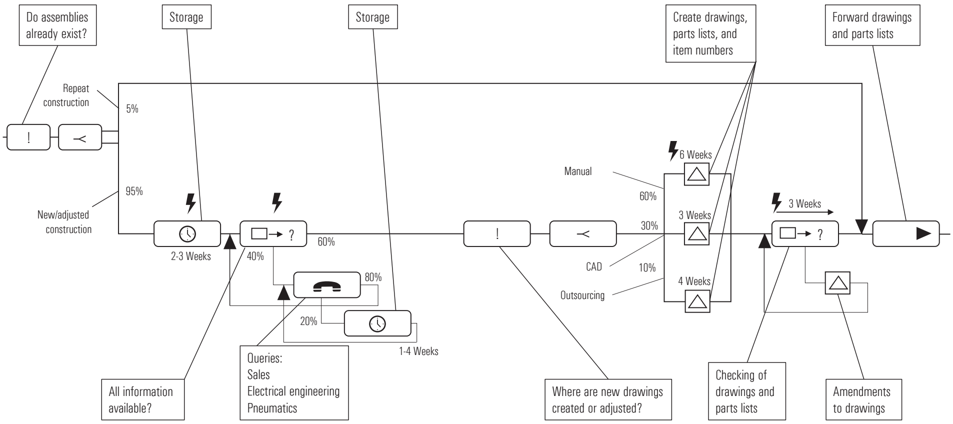

Figure 1-15: Illustrative Example of a Process Map (ITEM-HSG Project Documentation)
Source: Rüegg-Stürm and Grand (2020, p. 83)

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1.6 Types of Companies and Organizations

How the management tasks described above are prioritized and performed, and how the corresponding questions are answered, depends not only on the environmental context but foremost on the type of organization. Various criteria (Figure 1-16) can be used to typify organizations (based on Rüegg-Stürm & Grand, 2020, p. 36; Thommen, Achleitner, Gilbert, Hachmeister, & Kaiser, 2017, p. 25).

Criterion	By dominant environmental sphere	By profit orientation	By size
Categories	– Businesses (Economy) – Public Enterprises (Economy and Politics) – Public Organizations (Politics and Law) – Nongovernmental Organizations NGO (Public and Ethics) – Nonprofit Organizations NPO (Society) – Pluralistic Organizations (several environmental spheres simultaneously)	– For Profit – Not for Profit	– Small (<50 employees) – Medium (<250 employees) – Large (>250 employees)

Criterion	By legal form	By phase in the business cycle
Categories	– Sole proprietorship – Partnerships – Corporations (GmbH, AG) – Cooperatives – Associations – Foundations	– Seed – Startup – Early Growth – Expansion

Figure 1-16: Various Criteria and Their Categories Used to Typify Organizations

Source: based on Rüegg-Stürm and Grand (2020, p. 36); Thommen et al. (2017, p. 25)

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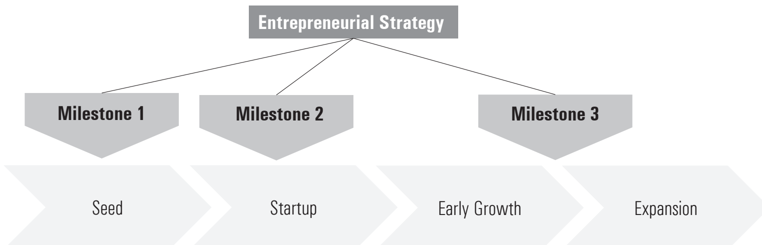
The type of organization and, above all, its economic (i.e. profit) orientation, significantly impacts the performing of management tasks and the force fields arising in the process. This is exemplified by the weighting of individual stakeholder interests.

Besides the differentiation according to the *dominant environmental sphere,* distinguishing organizations by *profit orientation* — "for profit" versus "not for profit" — is very important. Private companies seek profit, mostly directly or indirectly. They use their profit to compensate the risk capital needed, for example, to pursue risky innovation activities (e.g., when listed pharmaceutical companies research, test, and launch new drugs). Nonprofit enterprises mostly pursue social goals (e.g., NGOs operating in the field of development strive to combat poverty, while private foundations promote cultural projects). Not-for-profit companies are often financed by return on capital and donations, but also by their service fees (e.g., project services) or subsidies. In order to raise funds, they must document their success in attaining their goals in order to attract potential funders. For example, in 2019, the Bergwaldprojekt foundation had a total of CHF 1,726,754 in donated funds, which it invested in mountain forest conservation projects for 12,275 working days (Varinska, 2019).

Cooperations between public and private organizations are called "public-private partnerships." Typically, such organizations often involve profit-seeking and nonprofit-seeking companies coming together. For example, the cooperative members of the Swiss Society for Hotel Credit include the hotel industry, the banking sector, the federal government (the most important member), and individual cantons. The Society grants subordinated loans to promote the hotel industry in regions with seasonal tourism. Such loans are granted in the interests of the public sector (i.e., the regions benefiting from funding), or of the hotel industry and the lenders.

Another important typification structures companies according to *size.* Large companies are usually more differentiated and have various management levels, whereas microenterprises (e.g., startups) are often managed directly and personally by a team. Thus, the management structure, management culture, and degree of formalization of management vary greatly — and also result in differences between the flexibility and agility of companies.

The different *legal forms* of organizations provide different conditions for financing and growth, but also imply different requirements for management structure. While a simple partnership is usually managed by the owners, corporations are characterized by the separation of ownership and management, thus placing special demands on corporate governance. In most countries and cases, stock corporations have a two-tier system, in which a board of directors/supervisory board represents the owners/stakeholders while executive directors/management/board of directors run the company.



Need for Support	Support with building the business	Support with launching the first product	Support growth through access to the customer base of other companies	Support expansion of core business into new product groups
Potential Partners	Business Angel, Incubator	Financial Investor, Venture Capitalist (VC)	Strategic Partner	Strategic Partner, Investment Bank
Funding	Seed Funding	First Round of VC Funding	Further Funding Rounds	Initial Public Offering (IPO)

Figure 1-17: Typical Phases of Company Formation as an Example of a Possible Corporate Cycle

Source: Grichnik, Brettel, Koropp, and Mauer (2017, p. 239)

Today, the distinction by *phase in the business cycle* is also important. Thus, newly founded companies can be distinguished in terms of different start-up phases (Figure 1-17). While direct management (by the founding team) is possible both in a preparatory phase and immediately after a company's founding, management will need to be transferred to more formal structures as the company grows. Whereas in the founding phase, for example, the founding team selected personnel itself, thus enabling selection to match personal values, this task is later performed by a specialized HR department.

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Thus, the demands on management, management structures, and managers vary depending on the type of company. However, companies change their structure not only through endogenous development processes, but also through interactions with other companies, including cooperation, consortia, strategic alliances, joint ventures, and mergers (Figure 1-18).

Loose — Intensive

Cooperation	**Consortium**	**Strategic Alliance**	**Joint Venture**	**Merger**
Cooperation in subareas, e.g., research	Purpose-bound, long-term, usually temporary association; companies carry out joint business transactions, e.g., banking consortium	Long-term, contractual cooperation on strategic projects, e.g., develop specific country markets	Independent companies in relation to markets, Companies serving a specific purpose, e.g., joint production sites	Merging into a new entity

Figure 1-18: Forms of Corporate Ties

Source: based on Thommen et al. (2017, p. 35)

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Chapter 1: Key Points

- Integrative management is necessary to deal with complex management tasks.
- Classical management theory assumes that business studies should provide insights that support management and managers.
- The trend toward more scientific approaches in business studies led to a differentiation into functional subdisciplines (e.g., human resources and marketing), and to specialization according to management functions.
- Efforts to overcome the resulting "silos" brought forth various approaches, including systems-oriented management concepts.
- A systems approach helps to understand management as the reflective design of value creation systems in organizations, which in turn can be understood as socio-technical systems providing services to third parties.
- In its ongoing development, the St. Gallen Management Model (SGMM) provides a mental map, i.e., a model, for classifying and dealing with management tasks.
- Thinking in terms of systems makes it easier to grasp the developmental dynamics of organization-environment interactions.
- Thinking in terms of processes makes it easier to understand complex operations such as projects or service provision.
- Different types of organizations present different management challenges.

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2 Decisions and Communication

2.1 Case Study: N26

Inspired by the founding spirit of the Berlin startup scene, and fascinated by the disruptive potential of technological change in banking, HSG alumnus Valentin Stalf decided to start a company with Maximilian Tayenthal.

"In the garage," so to speak, the two founders pushed ahead with the first concepts for a startup in the financial sector in 2013 in their native Vienna. Yet they soon realized that they needed a fertile "ecosystem" with access to technology, employees, investors, and attractive initial customers. They eventually found a space in a Berlin-based accelerator and managed to secure initial funding from the Axel Springer Foundation to the tune of a low six-figure sum. But a new round of financing soon became necessary to develop the venture, to ensure market maturity, and to sustain initial growth. Business angel investors subscribed for around half a million euros. "Papayer," their then niche product, was a digital pocket wallet app with a prepaid credit card.

After about a year, at the end of January 2014, the company reached a crossroads. It became apparent that the earnings potential of the business model was limited, and that the pocket money app was used mostly by parents instead of their children. The company had already used up 400,000 euros and only had funds to keep operating for two weeks with what were meanwhile ten employees. Rather than giving up, they set higher goals and acquired new capital: The team managed to convince its investors that N26 was capable of building a mobile bank for customers of all ages.

Stalf and Tayenthal reached out to European venture capital investors EarlyBird and RedAlpine, who provided seed funding worth 1.5 million euros to relaunch the company. In spring 2015, U.S. venture capital fund ValarVentures invested 10 million euros; further rounds of financing amounting to more than 100 million euros with the participation of Asian investors were successful in 2016 through 2019. Even during the first Covid-19 lockdown, N26 raised more funding: On May 5, 2020, the company announced that 92 million euros in fresh capital had been secured. This provided the liquid funds needed for further growth, which materialized in the early summer of 2020, especially for Internet-based services, as a result of the coronavirus crisis.

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Today, N26 offers current accounts for private and business customers (www.n26.com). Accounts are linked to a debit Mastercard (and include various services and insurances). The basic monthly fee depends on the package, although no monthly fees are charged for the basic product. Nevertheless, N26 earns money even with its feeless, "free product": As the "issuer" of the debit Mastercard, it benefits from so-called "interchange fees" (which are transferred by the bank accepting the debit Mastercard at the point of sale). All interactions — from account opening to managing balances and payment transactions — take place via a smartphone app (i.e., without expensive branches). This mobile-first approach enables providing low-cost products and a 24/7 digital experience. However, the heavy reliance on technology, combined with the lack of personal service in case of glitches, has also led to criticism. At N26, new products are constantly being integrated. Third-party services are also incorporated, for example, in foreign currency or transactions or lending. N26 designs the "user experience" uniformly (i.e., regardless of service).

New financial service providers such as N26 operate with scalable technology by relying on cloud solutions for data storage and operations. This keeps overheads low, as there is no need to operate an expensive technological infrastructure with server farms. The challenge is to achieve strong growth with the necessary investments in development and marketing on the one hand and to generate enough cash flow on the other. For a long time, investors and N26 managers focused primarily on growth. The return on investment of individual customers was not particularly relevant. The goal was to gain a critical market share in the consolidating market for mobile financial services, and thereby to benefit from network effects. As recently as 2018, a loss of 73 million euros was incurred on sales of around 44 million euros. At around 27 million euros, roughly the same amount was spent on customer acquisition as on employee compensation (Hüfner, 2020).

Until the beginning of 2020, the company was dominated by a culture focused on growth, innovation, and the integration of new services. Growth was financed chiefly by investor capital. This was followed by a shift from a growth model to a cash flow model, where operationally generated liquidity finances operations and growth. Thus, N26 began focusing not only on the sheer number of customers, but above all on active customers ensuring long-term profitability. On the revenue side, profitability can be increased, for example, by upselling to premium account packages with higher-value services.

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The coronavirus crisis represents both an opportunity and a threat for N26. During the pandemic, social distancing and working from home increased the demand for location-independent Internet services like those offered by smartphone banks. N26 was thus able to attract the attention of new target groups that had previously relied primarily on analog (i.e., in person) banking. Activating these segments, which often have high purchasing power, represents a great potential that could be exploited with further investments in growth. At the same time, curfews and travel restrictions have significantly curtailed the freedom of consumption and movement, thus strongly impacting the number of card transactions at home and abroad. In addition, the investment climate has deteriorated given the increasing debt burden due to the coronavirus crisis. Today, investors are more critically eyeing the “burn rate” and are focusing increasingly on achieving cash flow and profitability.

The general economic slowdown is imposing fundamental considerations: Should additional money be invested in developing innovative services in order to continue the growth path and to reach new markets and target groups? Or should the money instead be invested in optimizing business processes, in upselling and cross-selling, and thus in securing sufficient cash flows?

Key Figures:
– Founded in 2013 in Berlin
– Almost 500 employees after eight years
– Over 40 million euros in sales in 2018
– The most valuable German startup in the financial sector since 2019
– More than 5 million customers since 2020

Discussion Questions:
A. What type of decision does whether or not to continue pursuing a growth strategy during the pandemic involve?
B. What decision-making methods might be used for this type of decision?
C. What communication platforms and messages are important for this decision?

2.2 Business Studies as Decision Theory

2.2.1 Necessity of Decisions and Communication

As shown (see Section 1.4), classical business studies sees its main task as supporting managers in organizations (Ulrich & Krieg, 1972). The single most important managerial activity is decision-making. Accordingly, business studies is often considered a theory of decision-making (see also Heinen, 1968). The main management tasks include making and implementing decisions, and, upstream, ensuring decision-making capability and identifying decision necessity (Figure 2-1) (e.g., Rüegg-Stürm & Grand, 2020).

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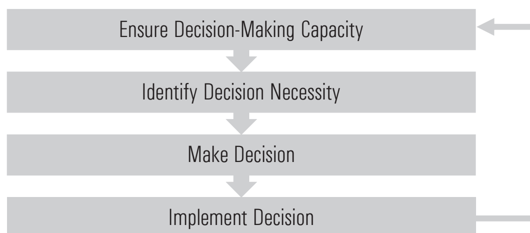

Figure 2-1: Decision-Making Phases
Source: based on Rüegg-Stürm and Grand (2020)

Successful decision-making needs to be tightly interlocked with communication. *Ensuring decision-making capacity* focuses on building trust, in order to secure information access and be capable of taking adequately legitimate decisions. *Identifying decision necessity* involves asking the right questions (see Section 1.4.3), providing relevant data (e.g., based on a "balanced scorecard"; see also Section 3.6), and exchanging soft signals (e.g., subtle hints at a social occasion). The phase of the actual *decision-making* focuses on developing alternatives (e.g., through exchange with cooperation partners or stakeholders able to provide the necessary resources such as new financing options) and on evaluating alternatives in a methodologically sound manner. *Decision implementation* involves legitimizing decisions among those affected and communicating the information that is relevant to implementation (e.g., instructing staff entrusted with implementation).

Consider a transport company: Regular contact with municipal authorities or customers while ensuring decision-making capability can help to increase the acceptability of later decisions (e.g., discontinuing underutilized routes). Communicating with market participants can reveal the need to change a service (e.g., new route timetable). Internal communication (e.g., with staff representatives) is needed to develop an alternative schedule requiring different vehicle rotations and staffing. Choosing between alternatives requires renewed communication with communities and customer representatives in order to obtain the necessary information. Next, the new schedule needs to be explained, internally and externally, and implemented with clear internal information and duty rosters.

2.2.2 Challenge of Decision-Making in Organizations

Decisions in organizations are made by individuals and groups at specialist and management levels. Decisions impact individual issues (e.g., a purchasing decision within procurement), other organizational areas (e.g., supplier problems affecting production), as well as the corporate environment with its stakeholders (e.g., employment situation at a supplier and in its region). Decision also have impacts across different time horizons. For example, wrong investment decisions damage a company's assets and also limit its ability to develop, which in turn affects employees and the region. This happens, for example, if a manufacturing company invests heavily in business properties before a recession. When the downturn hits, assets lose value. Or a mistaken strategic decision may lead to not investing in a new technology.

Often, even seemingly small decisions can have a major strategic impact (e.g., when a subsidiary in a seemingly secondary market abroad cooperates with a company that later becomes entangled in a

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corruption scandal). This can affect the entire company's reputation worldwide and absorb massive financial and management resources in dealing with the crisis.

Decisions in organizations are subject to uncertainty. When a decision is taken, neither can all possible consequences be foreseen, nor can all possible alternatives be identified. This is true especially when decisions are made (or need to be made) under time pressure. Only retrospectively does it become evident whether a decision has contributed to success or whether another alternative would have proven more successful. In addition, a chosen alternative may bring the company closer to its goal, but may produce side effects that are unforeseeable or not foreseeable to the same extent. Thus, decisions always concern the future, whose development remains unforeseeable. Consider an example from human resources management (HRM): Modern data-driven HR tools dominate many companies' recruitment processes. Evaluating psychographic data and CVs serves as basis for deciding whether an individual's personality fits the company or the position (evaluation is based on patterns identified in successful employees). This minimizes the so-called alpha error (i.e., hiring people who fail to perform their duties and responsibilities as required). Yet the more the alpha error is minimized in a selection process, the greater the so-called beta error becomes, that people who could be successful are not recruited (see Section 1.2).

Decisions, as we have shown, are characterized by uncertainty — and thus serve to establish certainty: The company has chosen one alternative over others. Certainty is central to value creation because it provides processes with the necessary stability and those involved with the necessary orientation. Vice versa, an organization, in order to be successful, must take risks: That is, it must venture a bit into uncertainty, in order to develop new products, open up markets, or create new technologies.

Establishing certainty for current value creation versus developing future success potentials poses a typical dilemma for managerial decisions (see also Section 3.7). The more certainty is sought, the more potential opportunities are lost. However, entrepreneurial development happens only if risks are accepted. This idea also underpins Schum-

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peter's model of economic growth (Schumpeter, 1911). Put simply, Schumpeter assumes that innovations (realizing innovations on the market) are made by entrepreneurs. These, in turn, are compensated for their risks by earning additional profits from their innovations. Innovations are later followed and copied by other companies in the imitation phase, which further promotes a sector's economic development (Schumpeterian growth). This process of economic development, in which old products and processes are constantly replaced by new ones, is also called creative destruction. Organizations, therefore, always need personalities who take innovative decisions to enable a company to seize development opportunities.

This economic necessity — of taking risky entrepreneurial decisions — is also taken into account in judicial assessments of management decisions that subsequently turned out to be mistaken. Today, robust formal and procedural criteria are very much the yardstick for legal assessments of management decisions (Müller, Lipp, & Plüss, 2014, p. 39). The "Business Judgment Rule" (developed in the USA) is decisive today. Essentially, this rule requires (Gauch, 2018; Müller et al., 2014) that

- decisions should be made within the applicable legal framework (i.e., within one's own jurisdiction and within the law);
- decision-makers should act unencumbered by conflicts of interest;
- all the necessary information should be obtained;
- alternatives should be weighed up (including a zero alternative, according to which nothing is done at all).

For example, if companies heavily affected by a pandemic (e.g., airlines or hotel groups) need to secure the cash flow essential for survival,

- their Board of Directors (BoD) can only choose those alternatives for which they have decision-making authority (e.g., new share capital cannot be issued without shareholder approval);
- BoD members with vested interests must stand aside (e.g., bank representatives may not be involved in taking decisions on credit lines with this bank);
- liquidity planning must be based on the information available on the pandemic (e.g., forecasts on its further course);

– alternatives (e.g., additional bank loans, selling parts of the company, issuance of a bond) must be weighed up from both a short-term (e.g., cost of bank loans) and a long-term (e.g., allocating strategic development options through selling parts of the company) perspective.

Essentially, therefore, it is a matter of ensuring that management decisions are made professionally and appropriately within the duty of care. This lends additional weight to decision-making theory within management theory. That weight is becoming ever greater in the age of increasing legalization.

2.3 Fundamentals of Decision Theory

Decisions are the subject of intensive research, whether normative and prescriptive or positive and descriptive. The former focuses on how decisions should ideally be made. The latter, in contrast, examines how decisions are made in practice and how decision processes can be further improved (Borcherding, 1983; Rehkugler & Schindel, 1990). Both groups of theories are important and show, each in their own way, that decisions are often not based on theoretical concepts. In practice, different factors play a role:

– that the need for a decision (i.e., decision necessity) or even the information available in a decision process are not fully incorporated into decisions, whether consciously or unconsciously;
– that decisions in organizations are often made in groups rather than by individuals. Thus, different perspectives, interests, and working methods must be considered. Especially in well-rehearsed groups, a momentum of its own may arise and influence a decision-making process. For example, pursuing harmony and avoiding conflict may become more important than seriously debating the facts (on Groupthink, see Russell, Hawthorne, & Buchak, 2014);
– that decisions in organizations are often made routinely (i.e., according to ingrained patterns and sequences). Such routinization preserves resources and creates expectability — for example, knowing how employees are recruited and knowing who contributes a decision to which question at which point. At the

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same time, when conditions change (e.g., when prospective employees change their information habits and prefer social media to newspapers), adhering to such routines may be detrimental to decision-making (Rüegg-Stürm & Grand, 2020, p. 177).

These points show that decisions in organizations are not a trivial matter, but require ongoing observation and treatment, with the help of prescriptive *and* descriptive decision research. Various different decision theories have emerged from this research, such as rational utility-maximizing decision making, which plays a central role in microeconomics (see Kolmar, 2017). Other decision theories have addressed the fact, among others, that decision makers never have all the information about possible alternatives or about the consequences of their decisions (Simon, 1947). Other theories, however, focus on how different actors reach decisions with each other, whether in politics or in other negotiation situations (Lindblom, 1959). Some scholars have addressed the random nature of decisions (Cohen, March, & Olsen, 1972), while others have viewed decisions as a process over time (Mintzberg, Raisinghani, & Théorêt, 1976). Together, these examples illustrate the diversity of decision theories.

Instead of further pursuing these theories, we distinguish three types of problems regarding the practical use of decision theories: simple, complicated, and complex (see also Probst & Gomez, 1991). Normative decision theory distinguishes corresponding types of decisions (Figure 2-2).

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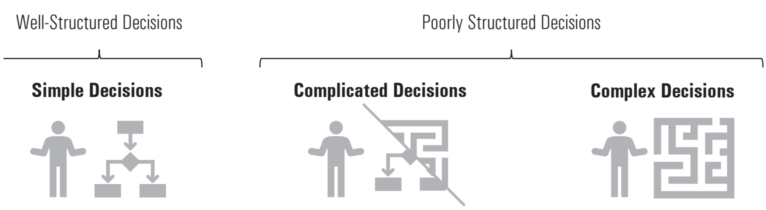

Figure 2-2: Decision Types

2.3.1 Simple Decisions

Well-structured or simple decisions involve the following conditions (Laux, Gillenkirch, & Schenk-Mathes, 2018; Heinen, 1968):

- Benefit-maximizing behavior in a clearly defined target system
- Known action alternatives
- Available information about the potential effect(s) of different action alternatives (i.e., the actual outcome)
- The existence of decision rules for choosing an alternative (solution algorithms)

This is the case, for example, when devising a delivery plan (e.g., deploying ten delivery trucks to optimally serve 50 locations with different order quantities). In such cases, different alternatives can be defined: different routes, as well as different deployment planning (weekly plans or short-term planning spread across a day and requiring routes to be rescheduled). The consequences of these delivery plans can be calculated, or at least estimated using statistical methods. The target system is clear: The aim is to minimize operating costs (vehicle, kilometers, driver hours). Thus, the preferences and decision rules are also simple and clear.

2.3.2 Complicated Decisions

In entrepreneurial practice, one of the aforementioned conditions is often absent. Those involved face a complicated decision. According to Laux et al. (2018), such decisions may be determined by:

- Deviation from economic utility maximization (e.g., because not all alternatives are known or because decision-making involves nonrational criteria)
- Limited information and limited cognitive abilities to process it (on bounded rationality, see Simon, 1947)

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Due to these characteristics, such decisions are accompanied by increased uncertainty. Consider vehicle purchases: Often, buyers consider not only economic optimization criteria (e.g., trunk volume, operating costs per kilometer), but also image, personality, etc. Group effects may also impact purchasing decisions (e.g., if a vehicle type is particularly popular in a particular social reference group). Nor does the decision maker have sufficient information (e.g., about long-term maintenance costs) despite various transparency-promoting mechanisms (e.g., consumer protection or automobile associations) seeking to improve information availability. Most of the time, the cognitive abilities needed to transform all the different information (objective and subjective information about prestige, economic data such as driving costs, performance data, etc.) into a meaningful decision rule are also missing. Moreover, the decision rule presupposed in rational decisions is often not clearly defined.

2.3.3 Complex Decisions

Complex decisions are characterized (see e.g. Laux et al., 2018) by the fact that…

- in a changing environment, the alternatives are either invisible or are constantly changing, or because new ones develop while others disappear;
- the effects of alternatives are often unclear (e.g., because they depend on others' behavior, are influenced by a changing context; or because calculating feedback across different subsystems proves difficult; or because multiple rounds must be considered).
- goals are constantly changing (e.g., because those concerned change their priorities due to the changed environment).

A typical example of complex decisions is planning a new city district. Design variants depend on what other actors (e.g., the responsible parties and the owners of neighboring plots) do or also on which higher-level regulations (amendment of zoning plans, building regulations, etc.) exist. The consequences of developing the new district cannot be foreseen due to the social behavior of those affected (e.g., local residents), who in turn are part of a particular social environment as an open system. Will a restaurant location that seems ideal on the drawing board have the necessary atmosphere and be anchored in the community in such a way that it will be used? Neighborhood

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or site planning will exist for generations; how future generations will judge it cannot be foreseen because values also change over generations. Planning itself may also produce feedback effects: For example, affected groups may initiate political processes that subsequently lead to new regulations.

2.4 Methods of Decision Theory

Every type of decision (see above) is associated with diverse decision-making methods. See below for some examples.

2.4.1 Simple Decisions

Simple decisions, as shown, are characterized by clear objectives and known alternative courses of action. Thus, they involve evaluating alternatives with respect to how they contribute to goal attainment. There is a "solution algorithm." One example is the evaluation of investment alternatives based on key figures such as the return on investment (ROI). The possible consequences of the alternatives can be certain (decision under certainty) or fraught with known probability (decision under risk). One suitable method for taking decisions involving several (possibly risky) partial decisions is the decision tree (Borgelt & Kruse, 1998).

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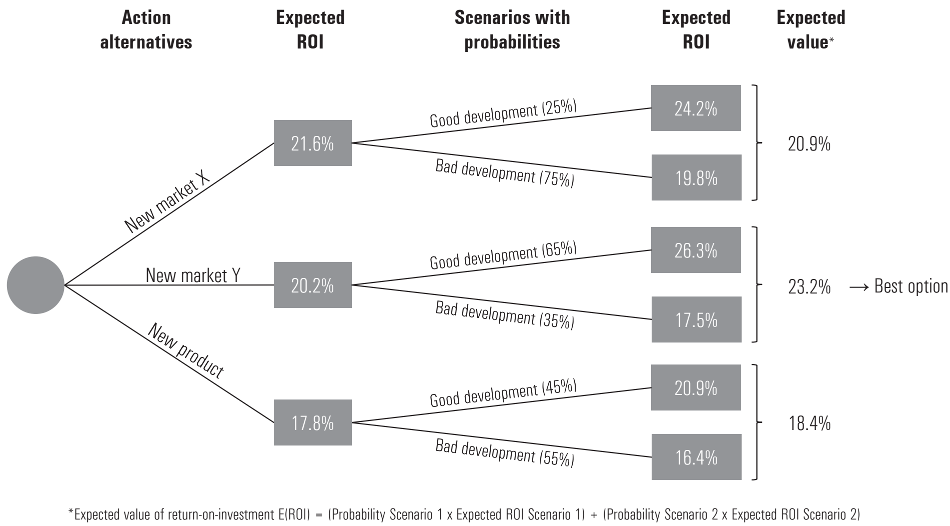

Figure 2-3: Example of a Decision Tree

Creating a decision tree first involves mapping the possible alternative actions across several decision levels (Figure 2-3). For example, a growth strategy presents two basic options: investing either in a new product or in a new market (including options such as choosing between two different foreign markets, e.g., large versus small countries). On a second level, the action alternatives of the first level are subject to the same development possibilities (e.g., investment alternatives are combined with different, probability-weighted economic scenarios). Every investment alternative, as well as product or market development, will react differently to these economic scenarios. In the end, it is a matter of calculating the expected value of every branch and of evaluating the total value of every alternative. This procedure enables selecting the decision variant and subdecision with the best expected value.

2.4.2 Complicated Decisions

Under conditions of bounded rationality (see above), not enough stable information is available. Not all variants are known, nor does a clear hierarchy of goals exist for selecting a variant. In such situations, simplifying heuristics are often resorted to. These inexact procedures

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can be understood as "rules of thumb." As proven decision patterns, such rules ensure a simple and comprehensible decision path. Therefore, if no clear solution can be determined with reasonable effort, decisions are often made based on subjective experiences and patterns (Thommen & Siepermann, 2018; see also Heinen, 1968; Auer, 2016). Typical heuristics include decomposing complex problems into subproblems, or so-called "roll back planning" (i.e., deriving necessary measures from the goal). Despite (or perhaps because of) these frequently applied heuristics, the transparency of the decision-making process and its traceability are very important (especially in the event of later judicial or public assessment). Thus, while applied decision-making aids — for instance, "first come, first served" — are very useful in freeing management decision-making capacities from other issues, they must also be appropriately justified and documented for important decisions.

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	Risk*	Potential	
Person 1	30%	70%	→ Best option because smallest risk
Person 2	50%	40%	
Person 3	60%	90%	

*e.g., based on prior knowledge/experience

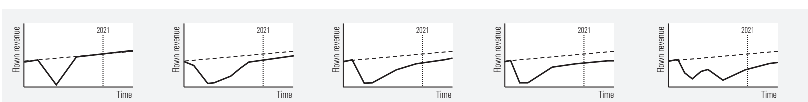
Figure 2-4: Example of Applying the Minimax Rule

A method situated between analytical solution algorithms and heuristics is the (pessimistic) minimax rule, according to which the minimum expected result is maximized (Gäfgen, 1968). Put negatively, that variant is chosen that is expected to incur the smallest maximum possible loss. If, for example, three candidates are available for a management position, the best-known person (who is also expected to involve the smallest risk or the smallest possible loss based on experience) is selected (Figure 2-4). Thus, not the best variant is optimized. A riskier choice would perhaps have far greater potential and would perhaps benefit the company much more, but would entail an increased risk with greater potential damage due to less information being available about that person.

2.4.3 Complex Decisions

As mentioned, complex decisions are characterized by a high degree of uncertainty about the possible alternatives, about a changing environment, or even about the consequences and side effects. Such decision methods more strongly consider the behavior of other actors or environmental developments. Consider how companies respond to a pandemic. Such crises require complex decisions, partly because other relevant actors also make decisions that are hardly predictable and react to the decisions of others or influence them in turn. This happens both in the market environment and at other system levels (e.g., politics, medicine, and human behavior).

In dynamic, uncertain situations, companies use scenario techniques. Scenarios are possible future representations of the organization and its environment and are based on hypothetical sequences of events. For example, an airline can think through various possible developments in air traffic (e.g., different durations of the crisis and different developments in business travel thereafter). Different scenarios can be combined and compared in tabular form (Figure 2-5).



Scenario	Rapid bounce back (V-shape)	Slower, but recovery within 2020 (U-shape)	Gradual recovery stretching into 2021 (prolonged U-shape)	Structural change; industry growth rate reduced (L-shape)	Double-dip recovery stretching into 2021 (W-shape)
Probability	Low	Medium	High	Medium	Medium
Recovery time (estimated)	~ 3–6 months	~ 6–9 months	~ 12–18 months	~ 12 months	~ 12–18 months
Virus severity and spread	Quick containment	Gradual decline of new incidences and deaths	Slow, gradual decline of new incidences and deaths	Slow, gradual decline of new incidences and deaths	Decline in incidences and renewed rise (new strain)
Government actions for citizens	Successful containment leads to easing of measures	Lockdown for several months, travel not recommended, borders open slowly	Lockdown for several months, travel not recommended, borders open slowly	Prolonged lockdown, travel not recommended, borders open slowly	Measures are eased, then suddenly reimposed at sign of resurgence
Consumer sentiment and behaviors	– Leisure and business traffic bounce back quickly – Consumer confidence recovers quickly – No structural change in behavior	– Consumer confidence returns quickly – Business and short-haul leisure travel first, followed by long-haul leisure – Travel distributors ramp up operations	– Consumer confidence takes time to return – Businesses maintain strict policies – Economic recession – Travel distributor failures	– Leisure travel reduced by fear; sustainability issues – News ways of working persist; strict policies remain – Economic depression – Widespread failures in travel distribution	Confidence returns only to be hit once more, for a more prolonged period, as safety concerns persist

Figure 2-5: Five Air Traffic Scenarios in the Post-COVID-19 Recovery Phase as an Example of a Scenario Technique

Source: BCG Analysis (Molenaar et al., 2020)

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In turn, decision-makers have various options for dealing with the results of the scenario technique. They can, for example, reapply heuristics when selecting an alternative. They can adjust to the worst scenario or consciously choose a scenario based on argumentative trade-offs.

The scenario technique is used to take complex decisions involving a highly uncertain environment. Other theories and tools address the uncertainty resulting from multiple actors who refer to each other with their decisions. A prominent example, as encountered in negotiations, is game theory (see Kolmar, 2017, p. 185). Game theory examines decisions in situations where people's choices depend on expected reactions from third parties, competitors, and other "adversaries." Game theory helps to study one-off situations as well as when actors interact with each other multiple times. A basic model of game theory is the "Prisoner's Dilemma" (see Lipton, 1985). Basically, this involves mapping the options of the two "players" each on one axis of the matrix (Figure 2-6).

		Perpetrator 1	
		Confess	Deny
Perpetrator 2	Confess	-8 / -8	-10 / 0
	Deny	0 / -10	-1 / -1

Figure 2-6: Prisoner's Dilemma Matrix

This concerns how people decide when faced with an opponent's ambiguous behavior, in this case a co-perpetrator. The situation is as follows: Two suspected perpetrators are interrogated individually; they cannot communicate with each other. If either admits the crime and the other does not, the non-confessor is considered convicted and receives the highest sentence (e.g., 10 years of prison; utility of –10), while the confessor goes unpunished as a state witness (utility of 0). If both suspects admit to the crime, both receive a high sentence, but not the maximum sentence because of their confession (e.g., 8 years of prison; utility of –8 in each case). If, however, both deny the crime, they both receive a low penalty, since they can only be proven to have

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committed a less severely punished crime (e.g., 1 year of prison; benefit of –1 in each case).

Obviously, the optimal decision variant strongly depends on assessing the other party's behavior. If the other suspect is assumed to confess, then the best option is to confess as well. If the co-perpetrator can be assumed to keep quiet, then one should also not confess. Game variations over several rounds include an additional "sanction option," which can be used to punish one's teammate. If the opponent (e.g., an important stakeholder in a negotiation) behaves negatively, they can be sanctioned in the next round. Over several rounds, this tit-for-tat strategy results in a stable equilibrium, the so-called Nash equilibrium (Nash, 1950).

2.5 Prerequisites for Effective Organizational Decisions

As mentioned, suitable decision-making methods exist for very many situations. However, additional prerequisites are needed for successful, effective decision-making practice. Rüegg-Stürm and Grand (2020, p. 183) mention the following:

– *Participation expectations:* Who has the right to participate in the decision?
– *Documentation requirements:* In what form should the decision be prepared in advance?
– *Decision scope:* How many decision alternatives need to be prepared?
– *Time expectations:* How much time can and should be spent on reaching the decision?
– *Safety level:* What level of clarification and analysis is necessary for a responsible decision?
– *Bindingness:* How is a decision authorized communicatively?

In this context, various aspects of decision-making situations in a complex environment have to be taken into account, each involving particular communicative challenges (see also Rüegg-Stürm & Grand, 2020):

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- How best to deal with *conflicting expectations and objectives* among the stakeholders involved and affected by the decision? In most decision-making situations, optimization is not possible with respect to all objectives. As a rule, classic goal conflicts exist, for example, between service quality and (at least short-term) return on investment. Often, these conflicting goals can be resolved over a longer period or over several rounds of development. For example, an expensive investment in more environmentally friendly processes entails high costs in the short term. In the longer term, however, more resource-efficient production and the associated reputational gains may well result in competitive advantages on the product, labor, and capital markets.
- In some cases, *not all possible alternatives are even known.* New options must be created by actively managing the environment as a space of possibility. During a pandemic, for instance, a company may bridge a liquidity bottleneck not only with classic financing instruments from banks, but also with microloans from customers.
- Often the *consequences are unclear.* The aim is to tap all available information and expertise as comprehensively as possible. The aim must be to obtain as diverse a picture as possible rather than merely confirming preconceived opinions.
- Often a *lack of clarity exists regarding decision-making methods* capable of accounting for the goals of all stakeholders and all information. In such situations, it is important to gain acceptance through consensus processes such as "roundtables" and through communication with all stakeholders, especially when public interests are also affected.
- Decisions often influence each other as part of an *overall decision-making system.* If, for example, a decision is made about the location of a company's headquarters, this will also affect decisions about the recruitment potential of employees and the company's image. This requires continually adjusting decisions and constant dialogue with other decision-makers.

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2.6 Communication

In organizations, and above all in decision-making, communication is crucial in several ways:

– In *preparing* decisions, information and evaluations are needed to develop alternatives and to assess their consequences. This usually involves different people and departments, which in turn requires communicative alignment.
– In *selecting and determining an alternative,* groups rather than individuals are often involved in organizations. Then, decisions are collective accomplishments of interacting collectives so that decisions are “enacted” communicatively (Rüegg-Stürm & Grand, 2020).
– *Implementing* a chosen alternative requires information, clarification, and persuasion, in order to ensure decisions can be accepted and implemented. Depending on the issue, this means communicatively involving employees, customers, suppliers, or other stakeholders, in order to make decision success more likely.

In summary, communication is essential for the quality of a decision and its procedural implementation. In both cases, the ultimate goal is to ensure that decisions can be accepted and enforced (especially in complex situations involving conflicting goals and potential “winners” and “losers”). For this to succeed, decisions must be perceived as fair. According to Rawls (1971), this requires procedural and distributive fairness.

– *Procedural fairness* requires that decision-making processes are perceived as comprehensible and as fair, both by those affected and by third parties (Bierhoff & Rohmann, 2011; Fasciati & Bieger, 2007). This means, for example, enabling participation and offering those involved opportunities to have a say. It is important to meet participation expectations and to ensure the decision-making process is appropriately documented (also for later public or judicial review). It is necessary to clarify the scope of decision-making, which includes setting clear, nonnegotiable limits. Binding definitions of who approves and communicates decisions are required.

– *Distributive fairness* means that decision outcomes are perceived as fair in terms of distributional effects (Thibaut, Walker, LaTour, & Houlden, 1974; Fasciati & Bieger, 2007). Thus, for example, certain minimum distributional levels should be neither undercut nor exceeded.

It is important to remember that fairness is a perceptual construct. For example, an organization's management may well be within its rights to effect certain dismissals or to exclude certain customer groups. Nevertheless, the outcome of such decisions may be viewed as illegitimate or unfair by various stakeholders, which may make enforcement difficult or impossible.

2.6.1 Organizing Communication

Various communication platforms help to ensure high-quality decisions or decision-making processes. These platforms can be classified by routinization and formalization (Figure 2-7). They are structured differently according to the degree of formalization (informal to highly formal and regulated) and routinization (regularity, frequency, self-evidence) (Rüegg-Stürm & Grand, 2020, p. 192). Platforms serving spontaneous exchange or coffee breaks, for example, are less formalized and routinized, while regulatory platforms such as board meetings are highly formalized and routinized. Task forces (e.g., established by many companies to manage the crisis brought about by the coronavirus pandemic) are highly formalized but not very routinized, as they are only formed in exceptional situations.

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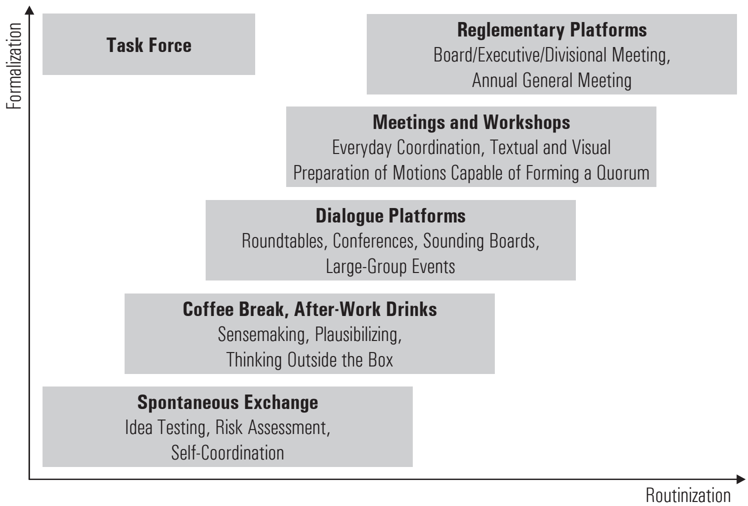

Figure 2-7: Different Communication Platforms in a Company

Source: Rüegg-Stürm and Grand (2020, p. 192)

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Each of these platforms is designed differently in terms of participants and methodology (see also Rüegg-Stürm & Grand, 2020, p. 192):

– Formal *meetings and workshops,* for example, are usually characterized by clear agendas and decision rules, as well as by clearly defined groups of participants.
– *Dialogue platforms* can be implemented, for example, as town hall meetings with an open agenda and enabling the exchange of ideas without formal decisions, as well as involving broad, largely open participation, or as “roundtables” in which participants are selected from stakeholder circles after a formal process and whose results have a defined binding force. Consider, for example, the expansion of a ski resort, where “roundtables” would help clarify expectations, negotiate interests, and thus anticipate later objections.
– *Informal,* more or less regular meetings lacking an agenda and institutional legitimation (e.g., coffee breaks and wine-and-cheese gatherings) only involve softly defined participants and allow informally exchanging information and ideas.

Besides these examples, various methods can be used independently of platforms. Widely employed, for example, are metaplan techniques (Habershon, 1993), which solicit opinions and votes through specific media (e.g., bulletin boards for posting ideas and arguments or electronic surveys and polls). However, many other exchange formats with various rules are also popular, such as world cafés, where several groups work on different topics or issues one after the other (Schieffer, Isaacs, & Gyllenpalm, 2004).

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2.6.2 How Communication Works

Communication is complex, not only in terms of setting up platforms and moderation procedures, but also in direct, person-to-person conversations. This complexity arises from one person (sender) conveying a message to another person (receiver). The sender can assume how the message will be understood by the receiver, but a certain level of understanding cannot be readily guaranteed. Schulz von Thun's (1981) model of communication illustrates this (Figure 2-8):

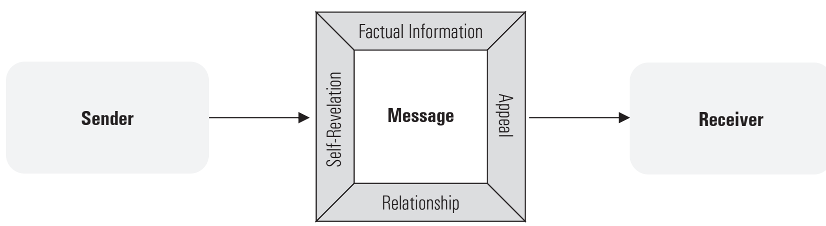

Figure 2-8: Four Sides of a Message
Source: based on Schulz von Thun (1981)

Senders encodes their message (i.e., they choose the language, wording, gestures, and environment). Receivers decode messages and interprets them based on their world of experience and referential system. Thus, every message has different components (Schulz von Thun, 1981): appeal, factual information, self-revelation, relationship. This becomes evident, for example, when criticism is worded very subtly because the sender and receiver have a good relationship. Thus, the person voicing the criticism (e.g., a supervisor criticizing a staff member) also reveals themselves and their appreciation.

Because communication is so important, what is perceived as right or wrong depends very much on the perceived, "constructed" reality of those involved. Collectively and communicatively created reality often dominates perception in social systems and thus also decisions. Accordingly, "constructivism" is the dominant paradigm (i.e., the fundamental model of thought) in the social sciences. This epistemological theory maintains that knowledge and perception are always subjectively constructed, and hence never constitute objective reality (Lindemann, 2019; see also Kuhn, 1969; Manella, 2003). Constructivism is thus distinct from other epistemological paradigms, such as positivism, which holds that objective reality is indeed perceptible and verifiable.

Various routines (e.g., rules for structuring information and instructions) facilitate organizational communication. These routines are context-dependent and require widespread understanding in order to function. Business examples include standardized reporting schemes. Another example is the five-point command as a standard communication structure in the military (Figure 2-9). While highly efficient, this form of communication offers less room for variety. Gentle signals are less easily conveyed because of the rigid structure, which increases the danger of aligned thinking. The ability to see alternatives or to perceive subtle weightings decreases.

1.	Orientation
2.	Intention
3.	Tasks
4.	Special Instructions
5.	Locations

Figure 2-9: Five-Point Command of the Swiss Armed Forces

Source: Swiss Armed Forces, Basic Training (Schweizer Armee, 2017, p. 67)

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Chapter 2: Key Points

- Decision-making is one of the most important managerial activities.
- Decisions require continuous work, in order to ensure decision-making ability, that the need for decisions is recognized, that decisions are taken in a correct professional manner and implemented appropriately.
- Decisions may retrospectively prove mistaken. This is the nature of decisions, which always refer to an uncertain future. Others' behavior (e.g., market, partners), environmental changes, and changes in one's organization are not always predictable. It is therefore even more important to adhere to decision-making rules in terms of the "Business Judgment Rule."
- Decision situations can be simple, complicated, or complex. Different decision-making methods are recommended depending on the situation and decision type.
- Decision-making processes need to be supported by intensive communication, in order to ensure that a decision is legitimate and acceptable within the organization, and that those entrusted with its implementation have the necessary information.
- In order to communicatively support decisions, platforms such as regular meetings or workshops must be established and designed with the help of suitable methods (e.g., metaplan techniques or world cafés).

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3 Strategy and Development Modes

3.1 Case Study: Hiag

The company known today as Hiag goes back to 1876, when it was founded in Rorschach as a timber importer and processor. In 1924, following an economic restructuring by Ernst Schmidheiny, it became Holzindustrie AG and was managed by Max Schmidheiny for almost 40 years (Alich & Büsser, 2017).

In 1965, as a result of a succession arrangement, Gustav E. Grisard and his brother-in-law Jean-Claude Wenger took over the management of the traditional timber company. Grisard pursued a growth strategy with external acquisitions. Smaller and medium-sized competitors and wood product specialists were purchased (e.g., the particle board manufacturer Novopan-Keller, Bauwerk Parkett or the fiberboard manufacturer Pavatex). This increased annual sales from CHF 20–30 million to almost CHF 900 million. In the end, the holding company comprised around 60 legal entities, of which over 30 companies were spread across Switzerland (Alich & Büsser, 2017).

At the end of the twentieth century, the timber industry underwent profound structural change. On the one hand, more and more international groups penetrated the Swiss timber business, which had formerly been protected by geographical market boundaries. Competitors included large groups from Austria and Germany, which could rely on economies of scale with their huge wood processing plants. Although wood as a building material was also increasingly used in Switzerland as an alternative to steel and concrete, survival at the local production site proved impossible: The variable costs of the small Swiss production facility compared to international competition exceeded the full costs of products from abroad, making cost leadership impossible.

In 2001, Felix Grisard, a 33-year-old HSG graduate, was appointed CEO. The "pent-up" structural change pressurized Hiag's results so much that very radical strategic change was needed — even if there was precious little time in which to achieve it. Hiag's organization was complicated: The decentralized production sites were too small and not profitable, and price differentiation was almost impossible. A master plan was developed and shaped Hiag's future: The most important "asset" was now real estate. The successful Bauwerk Parquet Group was split off into a separate holding. The remaining

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wood business was split into wood industry and wood trade, then reorganized, and either sold or closed.

Over a period of twelve years, Felix Grisard consistently transformed the former manufacturing company into a company focused on real estate development. In 2006, selling the stake in Bauwerk Parkett generated significant funds, which greatly eased the company's financial situation. The sale enabled the minority shareholder, the Wenger family, to make a financially satisfactorily exit. The family also received Hiag's "last" industrial holding, the Pavatex Group, as part of its portfolio.

Until 2008, most of the former "wood plants" were successfully transferred to third-party tenants. From then on, Hiag focused on developing large industrial sites (including other sectors such as the textile, metal, machine, and paper industries). To date, Hiag has built up a significant 2.7 million m^2 "land bank" consisting of over 30 former industrial sites that were unable to survive the structural change. About 80 % of the current portfolio was acquired through purchasing the sites of "foreign" (i.e., non-timber) industries. By 2014, Hiag had discontinued all timber trading activities, thus completing the company's transformation over a period of twelve years. Also in 2014, Hiag went public as a pure real estate company.

Today, Hiag aims to generate high and above-average returns by leveraging its strong position in German- and French-speaking Switzerland and by continuously developing and expanding its versatile, geographically diversified real estate portfolio (Hiag Immobilien Holding AG, 2020). In this way, the company generates continuous rental income on the one hand and increases in value through acquisitions and site developments on the other. The company concentrates on large industrial sites along the main transport axes. Around 40 sites have an average land area of 43,000 m^2. These large units allow development from a single source. Site development takes time, which explains why the company and its portfolio are geared toward the long term.

Today, Hiag has three mainstays: (1) professional, increasingly digitalized portfolio and asset management; (2) site development; (3) actual transactions. It owns real estate worth CHF 1.6 billion, making it one of Switzerland's largest private real estate owners. The challenge today is to develop successfully: Hiag's "project pipeline" over the next ten years has an investment potential of more than double the company's current value. Strategy and organization must be formulated and designed in order to successfully implement this massive growth step and to continue achieving above-average returns.

Key Figures:
- Hiag dates back to 1876.
- Number of employees: approx. 100.
- Total operating income in 2020: CHF 115 million.
- In early 2021, Hiag Immobilien Holding AG had a market capitalization of around CHF 900 million.

Discussion Questions:

A. Which key competitive drivers necessitated a strategic shift from timber to real estate?
B. Which are the company's old versus its new strategic success factors?
C. What are the greatest challenges of the current strategy?

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3.2 Strategy in the St. Gallen Management Model

Strategies serve to ensure sustainable success. This is done by defining long-term goals and the path toward achieving these goals. Strategies may be explicitly formulated or only implicitly recognizable — in the actions and decisions of the organization and its members. Strategies may be prescribed by managers or emerge from lower hierarchical levels. Despite many different approaches, strategy has two basic dimensions: (1) Strategy content (which focuses on content-related outcomes); (2) strategy process (which focuses on how best to develop strategy content).

Strategy is one of the four structuring forces in the St. Gallen Management Model (Figure 1-1). Strategy comes before structure because the structure or the organization must be designed to facilitate strategy realization. As Chandler (1978, p. 13) observed: “Structure follows Strategy.” Structure and organization should not be self-serving, but instruments for implementing strategy (see Section 4.4). If, for example, a company wants to push foreign growth because of a competitive advantage (e.g., a brand strongly anchored abroad), this should be reflected in the company’s organization. This may be achieved, for example, through strong country organizations, which are oriented toward which foreign markets ought to be developed with which priority. The company’s organization would then express the individual country markets (e.g, as divisions or main departments).

Vice versa, strategy is guided by governance (see Section 5.6). Governance is intended to structure the influence and decision-making possibilities of those responsible (Rüegg-Stürm & Grand, 2020, p. 87). Strategy results from the interaction between governance (board of directors) and executive management (management board). Both sides may initiate strategic discussions. As a rule, the management or specialist departments are responsible for detailed processing and implementation, while the board of directors defines priorities, takes basic decisions, questions details, and monitors implementation.

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Strategy processes are therefore always characterized by interaction between different levels (board of directors, management, specialist departments) (Figure 3-1).

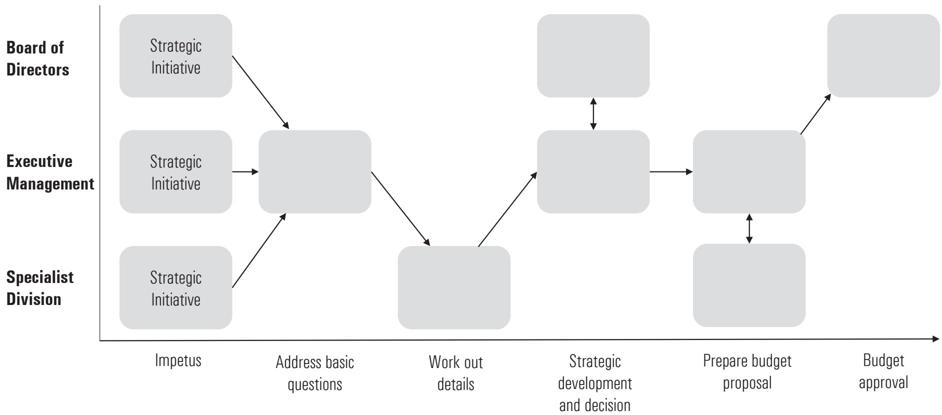

Figure 3-1: Possible Steps of a Strategy Process in the Interaction of Different Corporate Levels (Illustrative Visualization)

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3.3 Definitions of Strategy

The term strategy has been defined very differently. For example, Rüegg-Stürm and Grand (2020, p. 89) mention three exemplary definitions of strategy: Chandler's, Mintzberg's, and Rumelt's. Chandler (1962, p. 13) describes strategy as determining long-term goals and adjusting one's approach accordingly, as well as allocating resources over time; Mintzberg (1978, p. 68) views strategy as a pattern in a stream of decisions and actions, while Rumelt (2011) considers it as the way in which an organization moves forward and develops its value creation. However different, these definitions all describe strategy as the path an organization chooses to achieve its goals.

In particular Mintzberg's (1978) understanding of strategy makes clear that although every organization has a strategy, this has not necessarily been explicitly formulated. Frequently, historically evolved decision patterns constitute an implicit strategy. Take a simple artisan bakery that has been supplying handmade bread to a local neighborhood for generations. The bakery will hardly have a formulated strategy, yet the target market and the ways of reaching it are clear. The bakery's competitive advantages — its long-standing anchoring in a neighborhood and its core competence (i.e., producing high-quality bread) — are given. Company development and its members' actions are clearly determined.

According to Nickerson and Argyres (2018), strategic decisions in (profit-oriented) companies are characterized as follows:

- they are long-term;
- they impact an organization's ability to generate and internalize value;
- they serve to allocate resources that are either expensive or that can only be changed at great cost;
- they take into account the reactions of rivals (competitors on the sales market) and of various relevant markets (e.g., resource markets);
- they (positively) impact the return on investment.

In organizations, three reference levels can be distinguished as "orientation frameworks" (Rüegg-Stürm & Grand, 2020, p. 206; see also Section 1.3.2). First, the *normative* level refers to an organization's role in society, its values and norms (i.e., formulated as the company's vision and mission). Second, the *strategic* level looks at the organization's immediate environment (i.e., markets in the case of companies). This level focuses on potential longer-term success and on the prerequisites for the organization's success. Third, the *operational* level focuses on day-to-day business (e.g., the efficient use of resources or internal alignment to ensure services are provided as smoothly as possible). Thus, strategy lies between normative orientation processes and operational coordination processes (Figure 3-2).

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Normative Management

- Manifold prerequisites for social and ecological resources
- Pluralism of values, conflicting concerns and interests

→ Specify foundational value creation for the benefit of society

→ Clarify guiding values, norms, questions of meaning and behavioral maxims

→ Define guidelines for the fair treatment of conflicting concerns and interests

Strategic Management

- Complexity of the environment
- Uncertainty of the future

→ Establish the prerequisites for success in order to achieve sustainable competitive advantage to secure the long-term future

Operative Management

- Scarcity of resources
- Dealing with the unexpected

→ Stabilize organizational value creation in everyday operations

→ Utilize existing resources by ensuring efficient operations and problem-solving routines

Figure 3-2: Strategic Management between the Normative and Operative Levels
Source: Rüegg-Stürm and Grand (2020, p. 76)

Normative orientation processes provide the framework for strategic development processes. At the normative level, the goal is to legitimize the company in society and among stakeholders. Important in this regard is the enterprise's purpose, which defines its reasons for operating and existing (cf. Bartlett & Ghoshal, 1994). For example, an airline's purpose may be to connect its home country with the world — a purpose that was central to many airlines, especially in the pioneering days of air travel.

Associated with purpose is *"mission,"* which defines what exactly is to be achieved. Mission is defined as a consistent statement of purpose, which reveals the company's products or services, markets or customers, and philosophy (Pearce & David, 1987). For example, an airline's mission may be to ensure its home country is connected to at least three lucrative intercontinental markets. The *"vision,"* in turn, illustrates the future-oriented and long-term image of a company (Lipton, 1996). For example, our airline's vision may be to rank among the

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world's top five airlines in terms of service. Purpose and mission define a company's fundamental value creation for the benefit of society.

Normative orientation processes also involve clarifying the *values and norms* guiding action and defining fundamental behavioral maxims. These include principles such as "our company is built on the quality of committed employees, who are the basis for ensuring reliability, safety, and service quality." Linked to this are guidelines for dealing fairly with divergent stakeholder concerns and interests. A company's values and stakeholder relationship are often set out in a mission statement (Figure 3-3).

1. Customer Orientation	**2. Position of Jungfraujoch – Top of Europe in the Market**	**3. Competitive Orientation, Stakeholder Value**	**4. Profitability, Shareholder Value**	**5. Image and Engagement**
Our guests are at the center of everything we do. We focus on their needs and want to surpass their expectations. We want to be the best hosts in Switzerland.	Jungfraujoch is the region's flagship destination. We want to be the best-known and most popular destination in Switzerland and among the best internationally.	We always act competitively. In doing so, we respect applicable law and the principles of good corporate governance. We are long-term oriented, act honestly, sustainably, openly, and transparently.	We set value-oriented targets and strive to generate high cash flows. With these, we secure the long-term continued existence of the group and use the free portion to increase the value of the company and compensate shareholders in line with the market.	Our image is consistent. Based on our creativity and innovativeness, we provide high-quality services at demand-oriented prices.
6. Working Atmosphere, Corporate Culture	**7. Leadership**	**8. Risk Management, Safety**	**9. Environmental Attitude**	**10. Tourism Policy**
At all levels, we act in a competent, reliable, friendly, courteous, and mutually respectful manner. We delegate tasks, responsibilities, and competences in a congruent manner. Our salaries are aligned with the market. We offer training and further education as well as a good working environment.	We lead in a goal-oriented way, promote self-initiative and self-motivation. We practice active personnel planning. We carefully cultivate our management tools in order to be a lean and constantly learning organization.	We identify and minimize impending risks through active risk management. The health of our guests and staff is central to our work. We regard the enforcement of safety regulations as an important management task.	A unique landscape listed by UNESCO as a World Heritage Site forms the most important basis of our business activities. For us, an intact landscape and the protection of plant and animal life are of central importance.	We are aware of our embedding in the region and that we are interconnected with other tourism providers. We are committed to tourism policy and to further developing the Jungfrau Region.

Figure 3-3: Jungfraubahnen Mission Statement

Source: Jungfraubahn Holding AG (2017)

Operational coordination processes serve to stabilize organizational value creation in day-to-day operations. This includes regular orientation and decision-making meetings (e.g., an airline's regular operational planning meetings). Planning and implementing performance and support processes are also part of operational coordination processes. This includes drawing up an annual plan, which is then re-

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flected in flight planning; or defining and implementing individual technical processes (e.g., turnaround optimization, i.e., unloading, readying, and loading aircraft). The aim is to optimally use the available strategic resources by implementing the most efficient processes and problem-solving routines.

Strategic and operational planning enter into the "business plan" (Figure 3-4). This presents the strategy, as well as strategic and operational measures, in a multi-year plan and is transposed onto a financial plan. The latter contains the planned annual results (budgeted income statements), including medium-term investment and financing plans (for approx. five years).

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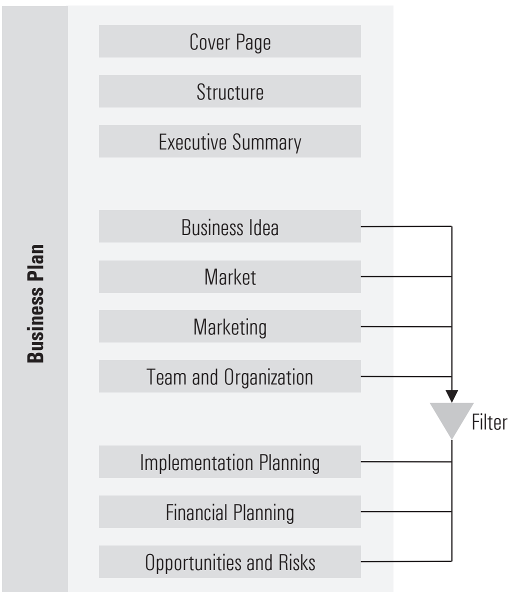

Figure 3-4: Typical Structure of a Business Plan

Source: adapted from Grichnik, Koropp, Brettel, and Maurer (2017, p. 275)

3.4 Strategy Content

When a strategy is explicitly developed, or when an implicit strategy is described, similar elements are evident in research and practice: For example, the SGMM identifies various design fields that are part of a strategy (Rüegg-Stürm & Grand, 2020, p. 88). The demands on a company's service offering (i.e., the products or services that a company offers and with which it wants to be successful) result from changes in that company's environment (e.g., market development), and from the expectations of important stakeholders (e.g., customers and suppliers). Each of these design fields is analyzed as part of a strategy and assessed in terms of how they contribute to positioning the company in its environment. Services are offered based on service creation processes, which raise the question what the company provides itself or buys from suppliers ("make or buy"). To decide this, the company must assess its own capabilities. Service creation processes require resources (e.g., materials, technology, employee expertise).

Similar elements can also be found repeatedly in discussions about business models. A business model can be defined as the comprehensive plan that integrates and often optimizes business processes (i.e., service creation, service innovation, and customer processes) across companies (Belz & Bieger, 2000; Gassmann, Frankenberger, & Csik, 2014). Frameworks for describing business models contain the same basic questions as strategy development (Figure 3-5): How is value created? For whom is this value created? How is this value internalized? These questions are closely related to strategy elements (e.g., market position, core competencies, and development mode).

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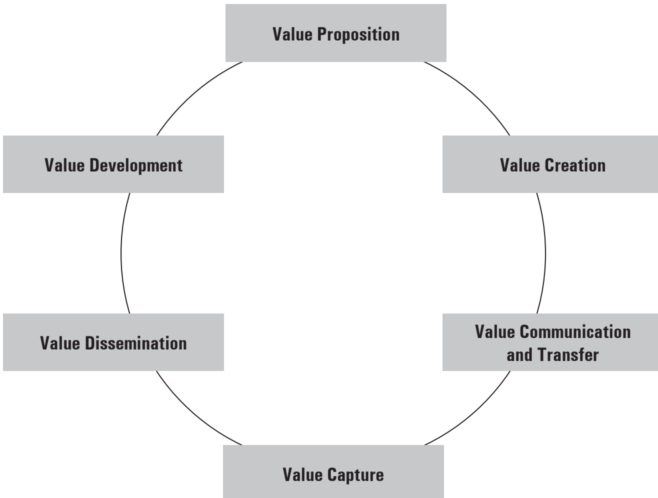

Figure 3-5: Elements of a Business Model
Source: Bieger and Reinhold (2011, p. 33)

3.4.1 Competitive Advantages

The aim of strategic development processes is to create sustainable competitive advantages and thus to ensure and increase competitiveness. Put simply, competitiveness can be defined as the prerequisite for creating sufficient value (Bieger, 2019). In this regard, most organizations and companies compete directly with other providers (e.g., on the sales market) or demanders (e.g., on the labor market). Or they compete indirectly with other organizations from other sectors for resources such as finances or public attention (e.g., cultural enterprises compete for subsidies with other state tasks such as education).

Sustainable competitive advantages require creating and utilizing protectable market positions. In perfect competition, it is theoretically impossible to generate profits beyond the direct cost of capital (Kolmar, 2017, p. 61). However, profits or rather prospective profits exceeding the normal cost of capital are necessary to create willingness to take innovation risks. Innovation and development presuppose profits, which in turn presuppose protectable market positions. This explains why the state enables the creation of protectable market positions in many sectors via patent and brand registration. For instance, only a company that has invested significantly in drug development research, and that can safeguard this innovation with a patent, can make the necessary profits that will offset the risk taken.

Competitive advantages can be created in the market according to a (market-based) outside-in perspective or in the company according to a (resource-based) inside-out perspective (Figure 3-6). Although Penrose (1959) is considered one of the founders of the resource-based view (RBV), this paradigm only became dominant in the field of strategy in the 1990s (Barney, 1991). Until the 1980s, the market-based view (MBV) prevailed with its focus on strategic positioning in the market (e.g. Porter, 1979). Resource-based theory was to some extent "dynamized" and merged with the market perspective in the late 1990s (Teece, Pisano, & Shuen, 1998). This was accompanied by the realization that companies need dynamic capabilities in order to optimally utilize existing resources in a dynamic market environment while being able to develop new resources (organizational ambidexterity; see also optimization versus renewal and the concept of organizational ambidexterity, Section 3.7).

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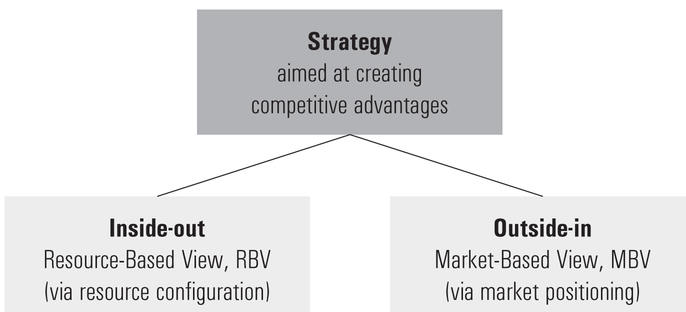

Figure 3-6: Strategies for Creating and Maintaining Competitive Advantage

A protectable competitive advantage in the sense of the *outside-in perspective* is the brand or positioning anchored with customers. Positioning refers to how companies shape their image and offering in order to place themselves in a certain way in the minds of consumers (Kotler & Keller, 2006). If, for example, a ski producer is anchored in the free riding community as the most technically advanced brand, this protectable market position has a positive impact: Customers are increasingly willing to pay or even to participate in the company, for example, through "word-of-mouth" (Palmatier, Kumar, & Harmeling, 2018).

A protectable competitive advantage in the sense of the *inside-out perspective* is a company's core competence (Prahalad & Hamel, 1990). This can be defined as a bundle of resources that is valuable and rare, hard to imitate, and nonsubstitutable. For example, if a company is able to produce more innovative and better quality fastening products (screws, dowels, etc.) for the construction industry in the long term — because it has better innovation processes (including patenting) and stable production processes based on personnel trained and developed over many years — its core competence is valuable, hard to imitate, and nonsubstitutable (see Figure 3-7 for examples of core competencies existing in various functional areas).

Functional Area	Description
Marketing	Identification of actual needs, shaping of customer relationships, sales of manufactured products
Supply Management	Procurement and storage of repeat factors
Production Management	Treatment and processing of repeat factors, use of potential factors
Research and Development	Systematic activities aimed at developing new production processes
Accounting	Recording and evaluation of operational sales process in which marketable services are created
Financing	Procurement, deployment and repayment of capital
Investment	Procurement of potential factors or financial investments
HR Management	Recruitment, supervision and release of employees
Organization	Sensible structuring and coordination of operational activities and definition of communication
Knowledge Management	Identify potential "knowledge" and information technology possibilities in the company
Legal	Compliance with legal requirements in all functional areas, but also take advantage of opportunities

Figure 3-7: Functional Areas as Possible Sources of Competitive Advantage

Source: Thommen et al. (2017, p. 18)

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Competitive advantages can also arise from industry-specific "economies" (i.e., economic forces; Figure 3-8). For example, a company can achieve a competitive advantage because it is the largest producer in a certain area (economies of scale). Learning curve effects enable it to produce at lower costs at an earlier point in time than competitors (see also Section 4.4.1).

Name	Effect	Example
Economies of Scale	Decreasing average costs with increasing number of units	Assembly line production of standardized cars
Economies of Scope	$c(a)+c(b) > c(a+b)$ ($a+b$ more cost-effective when combined)	Simultaneous production of skimmed milk and butter
Economies of Learning	$c'(a) > c'(2a)$ (c' = costs per unit)	Necessary number of cases for health care services
Economies of Networks	Falling marginal costs with rising marginal utility	Food ordering platform with delivery service

Figure 3-8: Economic Effects as Sources of Competitive Advantage

3.4.2 Competitive Strategies

The main goal of a strategy is to ensure competitiveness. Therefore, on the one hand, a *corporate* strategy should define competitive advantages that are envisaged, developed, and used. On the other hand, it should also formulate a competitive strategy that builds on these competitive advantages. Porter (1985) developed an approach for systematizing and thus defining a general competitive strategy (Figure 3-9). His approach distinguishes two dimensions: the strategic advantage sought and the strategic target object. His matrix results in three different possible competitive strategies for achieving strategic advantages:

- Differentiation from competitors
- Comprehensive cost leadership
- Concentration on focal points (occupation of niches)

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		Strategic Advantage	
		Singularity from the buyer's point of view	Cost advantage
Strategic Target	Industry-wide	Differentiation	Comprehensive cost leadership
	Restriction to one segment	Concentration on focal points	

Figure 3-9: Competitive Strategies according to Porter
Source: Porter (1985)

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In aviation, for example, low-cost airlines pursue *comprehensive cost leadership.* Costs are reduced not only in terms of service processes (minimum turnaround times and no in-flight service elements) or employees (salaries), but also in terms of suppliers (using airports with low airport charges). This cost orientation is also enacted in the management's appearance and kept alive by ideas and "narratives" (e.g., speculations about charging passengers to use the restroom during flights). In contrast, legacy carriers (i.e., classical national airlines with extensive route networks) pursue a *differentiation strategy.* Building on a strong hub located at an international economic center, they operate a high-quality network of intercontinental connections. The third and last possible strategy — *concentration on focal points* — is pursued by airlines focusing on a specific segment due to their geographical location. Based on this strategy, they serve regional focal points (e.g., in air traffic between Europe and South America) and thus occupy a niche.

If companies do not focus on one of these three possible strategies, they run the risk, due to their unclear strategy, of neither operating cost-effectively nor achieving differentiation advantages (they are "stuck in the middle"). One example in the airline sector is Air Berlin (Eisenring, 2016): Not having the cost advantages of low-cost airlines, because it also offered connecting flights to intercontinental flights, Air Berlin had to offer complex operating operations (including baggage handling). Nevertheless, it was not a classical network airline either (i.e., with strong and potentially profitable intercontinental traffic). Instead, Air Berlin operated only some relatively isolated long-haul routes.

In summary, securing sustainable competitive advantages is central to corporate strategy. Such advantages can rest on different perspectives (inside-out, outside-in) and should be protected whenever possible. This enables defining a general competitive strategy that should be pursued. The three ideal-type competitive strategies are differentiation, comprehensive cost leadership, and concentration on focal points.

3.5 Strategy Process

Early strategy research emphasized the strategy process (Mintzberg et al., 1976). Equally important was formulating the actual strategic problem (Selznick, 1957). The strategy process is about how a strategy is developed. On the one hand, strategy development refers to the individual steps through which an organization creates its strategy. On the other, it refers to how these steps are worked on.

Strategy development includes the *analysis phase,* which involves examining one's environment, market, and competitors, as well as one's organization with its strengths and weaknesses. Based on the analysis, *options* for the future are developed, derived as different possibilities available to the organization. From these options, the company selects a thrust (i.e., main direction) and concretizes its strategic *positioning* as outlined under strategy content (see Section 3.4). For the purpose of strategy *implementation,* the changes resulting from the positioning are grouped into larger project packages, so-called strategic initiatives. Their implementation leads to organizational changes (see Section 3.7). Implementation is followed by a *performance review,* which serves to establish whether and how well the adopted strategy is working. The results of the analysis enter the next cycle, making strategy development a continuous process in organizations.

Among these steps, Nickerson and Argyres (2018, p. 594) highlight the analysis phase or problem formulation as the core activity. They refer to the process through which organizations assess their challenges, opportunities, and situation — and through which they conceptualize possible future scenarios as "strategizing." According to Felin and Zenger (2016), this process ought to lead to forming hypotheses about how the organization can create and internalize value. In the case of a restaurant chain, this might be its ability — thanks to highly flexible kitchen staff — to quickly adapt menus to current

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needs, which vary depending on the weather and time of day, and thus to generate value for customers that can be internalized through higher prices. Nickerson and Argyres (2018, p. 559) also describe the key factors that inhibit meaningful and efficient strategy development ("strategizing"). These factors include cognitive, sociological, and politico-economic issues:

– *Cognitive problems* arise when group members maintain different mental models of the world. If they experience their model as underrepresented or underperceived, there is a risk that they will conceal or distort their information.
– In terms of *group sociology,* there is a risk of "groupthink" (Janis, 1982). If group interests, especially conformity or harmony, take center stage, there is too little conflictual discourse. There is even a risk that, because it functions well on the surface ("after all, we have no conflicts"), the group also overestimates its ability to solve complex problems.
– *Politico-economic problems* arise when no common understanding of the organization's problem can be created. In this case, group members have their own hidden, unexpressed views of the problem, and thus will individually perceive and evaluate the alternatives. This often leads to unresolvable conflicts because group members use different evaluation criteria to compare alternatives.

These factors indicate that successful strategy development depends on certain prerequisites. On the one hand, it requires managers to have a broadly based ability to function and make decisions (see Section 2.5). Also needed is an appreciative culture of cooperation, which enables reflecting on the self-evident (Rüegg-Stürm & Grand, 2017). This requires courage and mobilizing the creative imagination. It also requires sufficient patience and perseverance, in order to implement strategic changes. Clearly defined intermediate steps and successes (milestones) help.

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Besides these different prerequisites for success, strategy research has also identified different patterns of how strategy development is handled in organizations. Kreutzer and Lechner (2009) mention five typical approaches (Figure 3-10). The *command approach* enables taking rapid decisions through a clear hierarchy. Strategy formulation takes place in a centralized manner and accordingly is separated from implementation. In *strategic planning*, strategy formulation also takes place in a centralized fashion, but (in contrast to the command approach) within the framework of an analytical and formalized process. In *directed evolution*, ideas and suggestions from the entire organization are incorporated into the strategy at a very early stage. Strategy formulation and implementation thus merge and take place quasi simultaneously. The *symbolic approach* focuses on a common vision for the entire company. Managers act more as coaches and motivate employees to achieve this common goal. Strategy formulation and implementation no longer take place explicitly. In *self-organization*, management only assumes a very passive role and merely provides the ideal framework for the company's strategic self-development. Ideas and initiatives can arise anywhere in the company and be driven forward independently.

Type	Features
Command	Focus: "Great man" → Clear hierarchy, rapid decisions, separation of formulation and implementation
Strategic Planning	Focus: Analysis and planning → Central strategist, analytical and formalized process, separation of formulation and implementation
Directed Evolution	Focus: Entire organization contributes ideas and suggestions → Strategy develops, simultaneous formulation and implementation
Symbolic Approach	Focus: Shared vision → Coach/motivator/visionary, symbols and metaphors, broad involvement in implementation.
Self-Organization	Focus: Creating ideal framework conditions → Ideas and initiatives can arise anywhere within the organization and be driven forward independently

Figure 3-10: Types of Strategy Formulation and Implementation
Source: Kreutzer and Lechner (2009)

Nagel and Wimmer (2002) identified four typical patterns of strategy development (Figure 3-11). These can be structured based on "where" (outside or inside the organization?) and "how" (implicit-intuitive or explicit-systematic?) of strategy work. These two dimensions result in a matrix with four fields and different ideal-type patterns of strategy development. In a *first variant,* strategy work is explicit-systematic and takes place outside the organization. Organizations hire external consultants to develop a strategy. Larger companies also have their own strategy development units. Because, so the corresponding conviction, strategy is a matter for experts. As a *second variant,* strategy work is seen as a matter for the boss, who has a feeling for which opportunities and challenges are emerging based on many years of experience and intuition. Such patronal strategy work also takes place outside the actual organization, more or less in the leader's mind — or rather gut. In a *third variant,* an organization's strategy results from the respective strategies of the different parts of the company. In this pattern, the main idea is that every part is responsible for its future development. This implicit-intuitive pattern with emergent strategies is evident in expert organizations such as universities and hospitals. As a *fourth variant,* explicit-systematic strategy development takes place within the organization. Strategy work is jointly developed by managers and involves different company areas.

Who does corporate strategy work and where?	**How** does corporate strategy work take place? **implicitly-intuitively**	**explicitly-systematically**
outside an organization as a **specification for** managers	Patronal, Bilateral "Strategy is a matter for the boss"	Experts-based, quasi rational "Strategy is a matter for the expert"
inside an organization as **part of** managerial performance	Evolutionary, opportunistic, emergent "Everyone is responsible for their own strategy"	Communitized managerial performance "Strategy is a managerial task"

Figure 3-11: Ideal-type Decision-Making Patterns in Strategy Work
Source: based on Nagel (2007)

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As often happens in business management, there is no *single* correct approach to choosing a strategy process, because the optimal choice depends largely on context. Two factors are important:

– *Urgency:* If a company needs to quickly change its strategy in a turnaround, a (patronal) command style may be necessary.
– *Resources:* If a strategy's success is based on mobilizing resources beyond direct control (e.g., the individual commitment and creativity of individual organizational members), then (emergent) self-organization might take center stage.

Strategy work is an open-ended process in which an organization's basic problems should be addressed openly and in which the broadest possible scope should be opened up for alternatives. According to the St. Gallen Management Model, an organization's environment is understood as a space of possibilities (Rüegg-Stürm & Grand, 2020). In a strategy process, it is important to first consider all options rather than hastily focus on individual strategy tools. These tools run the risk of dominating perceptions, which may result in losing sight of alternative approaches or important additional viewpoints. At the same time, tools are important for strategy work: They support strategy discussions by systematically specifying which questions and aspects should be addressed. They also provide those involved with orientation while working on the individual strategy development steps.

3.6 Strategy Tools

The next sections present tools that support the strategy process. The frameworks mentioned are not exhaustive but represent a selection; depending on the organization and process, other tools might also be used. The tools are arranged along the steps or phases of a typical explicit strategy development process: analysis, developing alternatives, choosing a strategy, implementation, and evaluation.

3.6.1 Analysis

A company-level SWOT analysis is a common tool for initial strategic analysis (Figure 3-12). It assesses a company's strengths and weaknesses in terms of internal resources and capabilities compared to competitors (see RBV, Section 3.4.1), as well as its opportunities and threats (based on environmental trends and corresponding developments in the company; see MBV, Section 3.4.1). Analyzing strengths and weaknesses can be based, for example, on a company's functional areas (see Section 3.4.1). Assessing opportunities and threats can be based on trends within an organization's various environmental spheres (natural, societal, economic, technological, and legal according to the SGMM) and on stakeholder developments.

		Environment and Stakeholders	
		Threats	Opportunities
Organization	Strengths	Strengths and threats meet	Strengths and opportunities meet
	Weaknesses	Weaknesses and threats meet	Weaknesses and opportunities meet

Figure 3-12: Company-Level SWOT Analysis

Regarding the four fields, an organization need to ask itself several basic questions:

- *Strengths/threat:* How can I use my strengths to avoid possible threats?
- *Strengths/opportunities:* How can I use my strengths to optimally utilize the opportunities presenting themselves (see the concept of "unique selling propositions" in marketing)?
- *Weaknesses/threats:* Which weaknesses simultaneously pose a danger and therefore make the company vulnerable (Achilles, heel)?
- *Weaknesses/opportunities:* Which opportunities do my weaknesses prevent me from optimally utilizing?

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Trends, and thus opportunities and threats, may also result from how competition develops. One important tool in this regard is Porter's competitive forces framework (Figure 3-13). This model assumes that industry attractiveness is determined by market structure, which in turn influences the behavior of market participants. The following five elements are relevant for assessing industry attractiveness:

– Suppliers' negotiating power
– Customers' negotiating power
– Threat from new providers
– Threat from substitute products
– Intensity of competition/rivalry in the industry

The negotiating power of suppliers and customers determines how well they can assert their interests toward the company. The greater their negotiating strengths, the less attractive the industry. The same applies to the threat of new suppliers and substitute products: The greater this threat, the more competitive the market and the less attractive the industry is for the company. For example, the increasing news streams of public broadcasters pose a substitution threat for traditional newspaper publishers (substitute products). Competition intensity as the fifth factor also impacts industry attractiveness. Strong rivalry usually leads to strong price or performance competition, which results in poor profitability prospects.

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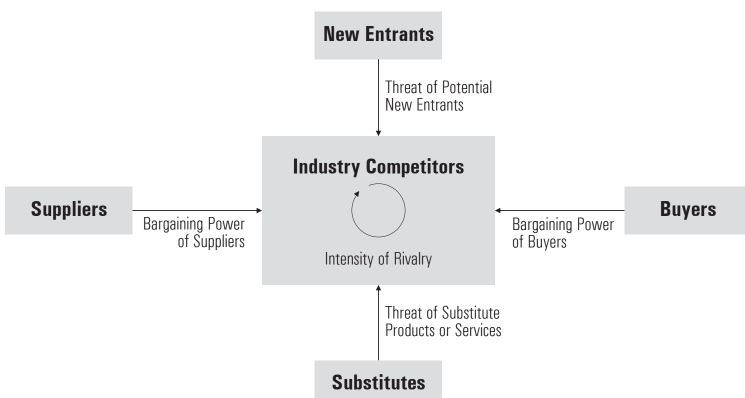

Figure 3-13: Porter's Five Forces Framework for Competitive Position Analysis
Source: Porter (1979)

Often, initial strategic analyses and the all-important problem definition involve integrated analyses, for example, by taking into account approaches within systems analysis (on market developments, see Bieger, 2019; on integrated problem-solving approaches, see Probst & Gomez, 1991). A systemic network analysis can be used to identify interactions between individual elements, issues, and problem areas and thus also to assess developmental dynamics (Figure 3-14). Such structure diagrams enable visualizing interdependencies on the different levels of an organization (and its environment). Assigning impact direction to the connections between the various system elements (positive or negative relationship) and, if necessary, weighting them differently, even enables performing certain quantitative simulations.

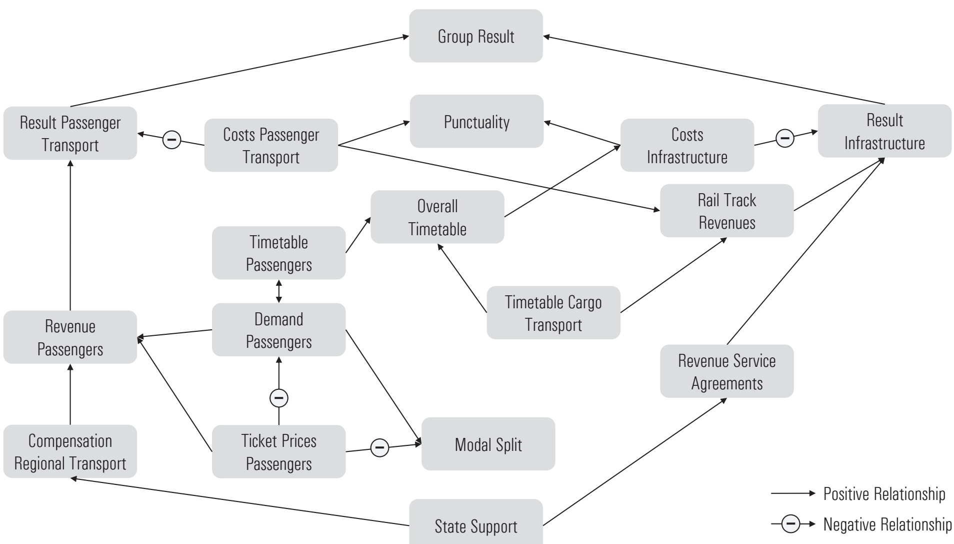

Figure 3-14: Simplified Network Analysis: Example of the Swiss Federal Railways (SBB), excluding the Cargo and Real Estate Divisions

Source: Laan, Wittmer, Gross, Barth, and Moll (2010, p. 18)

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3.6.2 Formulation

A classical tool for formulating and systematizing alternative strategies is the Ansoff matrix (Ansoff, 1987). This systematizes different thrusts with regard to market and product (Figure 3-15). If the aim is to penetrate a new market with existing products, this is called *market development;* the opposite case (i.e., new products on an existing market) is termed *product development.* As a strategy, *market penetration* means wanting to expand one's share in the existing market with existing products. The fourth and final option is *diversification:* The company enters completely new territory by developing new products for new markets.

Product \ Market	Current	New
Current	Market Penetration	Market Development
New	Product Development	Diversification

Figure 3-15: Ansoff Product-Market Matrix
Source: Ansoff (1987, p. 132)

Based on Hamel and Prahalad (1994), a similar matrix can be designed with a market and a core competence dimension. This opens up different strategic options and is known as the core competence market matrix (Figure 3-16).

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		Market	
		Existing	New
Core Competence	New	Develop new core competencies to protect and expand current market position	Develop new core competencies to create future markets and to be competitive
	Existing	Use core competencies to improve current market position	Regroup and recombine core competencies to be competitive in future markets

Figure 3-16: Core Competence Market Matrix
Source: Hamel and Prahalad (1994)

Companies are often confronted with a multitude of strategic alternatives. In today's VUCA world (see Section 1.4.3), ideas and impulses for strategic developments are constantly emerging in the various environmental spheres of companies and also in companies themselves (which are increasingly organized as networks). Mintzberg (1978) characterizes the various possible strategy options as strategy flow (Figure 3-17). He describes as "emergent strategy" those patterns of competing actions that arise spontaneously over time and therefore tend to be sporadic, reactive, and opportunistic (Mintzberg, 1978). Organizations pursue certain formulated strategies (e.g., focusing on developing a certain foreign market). At the same time, however, organizations are constantly confronted with new strategies or strategy options (e.g., new recruitment strategies for skilled workers or a new product policy). Managers need to evaluate such strategic alternatives and, if necessary, to adjust the strategy based on these alternatives. This leads to a discrepancy between the intended strategy and the implemented strategy.

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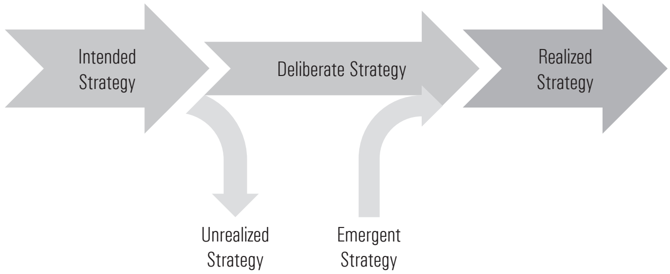

Figure 3-17: "Emergent Strategies" and their Influence on Intended Strategy
Source: based on Mintzberg (1978)

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3.6.3 Selection

Various methods can be used to select a strategic alternative. *"Business planning"* is also helpful for strategy selection: As part of a business planning process, strategic alternatives are calculated up to and including economic success over the medium term and can be prioritized accordingly based on the results.

Another instrument is *utility analysis* (Figure 3-18): Strategy alternatives are assessed according to various criteria (e.g., future returns, future contributions to anchoring the company in strategically important target markets, future contribution to tapping essential resources). The individual targets are weighted and the target contributions of the variants are evaluated. The weighted target contribution of each strategy alternative can thus be calculated and the best one selected.

Criteria	Weighting	Strategy Alternative 1		Strategy Alternative 2	
		Points	Weighting	Points	Weighting
Profit	50%	3	1.5	4	2
Production Costs	30%	2	0.6	4	1.2
Innovation	20%	4	0.8	3	0.6
Total	100%	9	2.9	11	3.8

Figure 3-18: Example of a Utility Analysis

Another classical tool is the Boston Consulting Group's *BCG matrix*. As a rule, this involves classifying strategic alternatives in terms of strategic business areas according to two criteria (market share and growth). The matrix results in four fields, each having different strategic implications (Figure 3-19). Strategic business fields are considered *"Cash Cows"* if they exhibit low growth but have a high market share and generate stable earnings. The strategic choice is likely to be: "Milk" cash cows to the end of their (product) life cycle. Matters are less clear with *"Pets"* (previously called "Poor Dogs"): Should these be held onto despite low growth and low market share, or ditched? The strategic choice is probably clear in the case of *"Stars"*: These business areas are likely to be maintained, as they promise high returns thanks to high growth and market share. The strategic decision for *"Question Marks"* is more difficult: Although these exhibit high growth, they are relatively insignificant within the market. The strategic choice could be defined as growing faster than the market in order to gain market share.

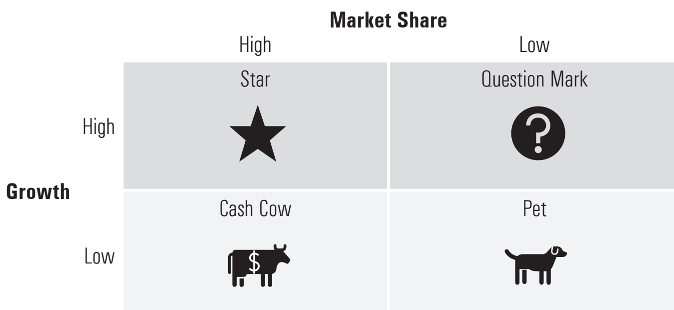

Figure 3-19: BCG Matrix

Source: BCG (2020)

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3.6.4 Implementation

Strategy implementation or realization depends on the selected strategy process. One main distinction is between "top-down" and "bottom-up" implementation. In the first variant, the strategy is specified by management, and implementation is "commanded" top-down. In the second variant, an attempt is made to get all employees to willingly support the strategy through a shared understanding of the problem. The less a strategy can be implemented top-down, the more a participation process and thus mobilizing those affected becomes necessary. For example, a university can build up a new field of teaching and research by deciding top-down (i.e., centrally) to create new chairs. However, establishing interdisciplinary research areas requires professors to cooperate across disciplines and can only be achieved bottom-up (i.e., decentrally) through a common understanding of the problem and through shared motivation.

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3.6.5 Evaluation

Strategies must be reviewed in terms of their implementation and success. Various tools exist for this purpose. The best known is the *"balanced scorecard,"* which involves incorporating the various input and output factors of a strategy or of a corporate development in a report (quasi a "dashboard" that makes explicit the strategy's goals and key figures). Typical perspectives include the financial perspective, the customer perspective, the internal process perspective, and the potential perspective (Kaplan & Norton, 1992).

Another common concept is *"key performance indicators."* Such KPIs can be defined based on results (e.g., number of new patents in a research department), but can also focus on processes (e.g., improving the scope and quality of collaboration in an interdisciplinary research team). For example, a series of tangible KPIs can be derived from the vision of an organization via the various stages of concretizing a strategy. Based on the University of St. Gallen's "Roadmap 2025" (Figure 3-20), this could be the level of self-financing to be achieved in 2025 (in "Financing") or the number of annual projects to be carried out with practice partners from the region (in "Knowledge").

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Continuous quality development We support internal stakeholders in continuous improvement and engage with external organizations to enhance quality and make it more visible	**Inspiring infrastructure** We offer infrastructure that inspires and facilitates attaining set objectives. By this we create added value in fostering personal encounters in the digital age.	**Public and private** We complement public funding with entrepreneurial engagement, sponsorship and donations while preserving academic freedom.	**Digital and productive** We take advantage of digitization's potential in order to support innovative research and teaching models and optimize our efficiency through the effective use of ICTs.	**Employer of choice** We are recognized and sought after as an employer of choice with a work culture that values professional expertise, personal engagement, and team work.	**Integrated knowledge transfer** We provide internal knowledge and external information to our stakeholders in an innovative way.

Figure 3-20: HSG Roadmap 2025

Source: University of St. Gallen (2017)

In the case of rather evolutionary strategies, minor adjustments are still possible while checking implementation (see also Section 3.7.1). In the case of revolutionary strategies (i.e., ones involving fundamental renewal), clearly defined control points are required to terminate the adopted approach if certain success thresholds are not reached and if particular implementation steps cannot be taken, or if risk limits are exceeded. If a company wants to build up a fundamentally new market, it must define a "value at risk" (similar to any investment strategy). This is the maximum stake or even the worst expected loss, whose definition enables handling risks in better and more controlled fashion (on value at risk, see Jorion, 1996). If the build-up and investments require more investment capital than expected, or if the new market yields insufficient cash flow, adjustment and exit scenarios are needed. A multi-year business plan is an important starting point, especially

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for defining such warning points. This enables continuously comparing the planned investments, sales, or cash flow with reality.

3.7 Development Modes

Besides the developmental direction, the strategy also clarifies the development mode. The aim is to balance renewal and optimization for an organization's long-term survival. What should be the principal focus? Continuous product innovation, in order to increase quality and process innovation, and to reduce costs (optimization)? Consider an automobile manufacturer that regularly overhauls and issues a new edition of a particular vehicle. Or should the key focus instead be to swiftly achieve a new position through revolutionary, disruptive change (renewal)? Consider the same automobile manufacturer, which now completely restructures its value chain by making a radical change to become an integrated mobility provider.

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3.7.1 Optimization and Renewal

Strategy is essentially linked to entrepreneurial change and requires balancing evolutionary optimization (low impact intensity) and revolutionary renewal (high impact intensity) (Figure 3-21). Even for established companies, it is usually not enough to merely focus on ongoing optimization and maximum efficiency enhancement. The danger is too great that disruptive innovators will suddenly dominate the market through radically new approaches and (initially immature) technologies (Christensen, 1997). The dilemma between optimization and renewal, between efficiency ("doing things right") and effectiveness ("doing the right things"), represents a key strategic challenge. One possible route out of this dilemma is the concept of organizational ambidexterity: By exploiting existing advantages *and* by exploring new potentials for success, organizations and their management seek to ensure long-term survival (Tushman & O'Reilly, 1996).

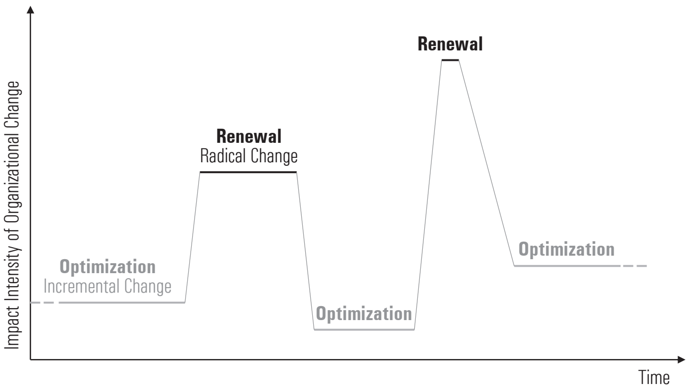

Figure 3-21: Radical versus Incremental Change (Renewal and Optimization)
Source: Rüegg-Stürm and Grand (2020, p. 111)

The two development modes can also be described as evolutionary (optimization) and revolutionary (renewal). *Evolutionary* development often takes the form of optimizing customer performance (e.g., when a sneaker manufacturer successively evolves into an integrated lifestyle coach by installing sensors in its running shoes and developing apps). Today, performance systems are increasingly being developed into integrated solutions to problems. The horizontal performance domain of companies is thus expanded. *Revolutionary* development often starts with the renewal of service creation (e.g., when an integrated car manufacturer focuses on providing delivery and maintenance logistics and thus becomes a pure service provider for other car manufacturers). Service production areas of companies are currently growing narrower, thus shortening their share of the value chain.

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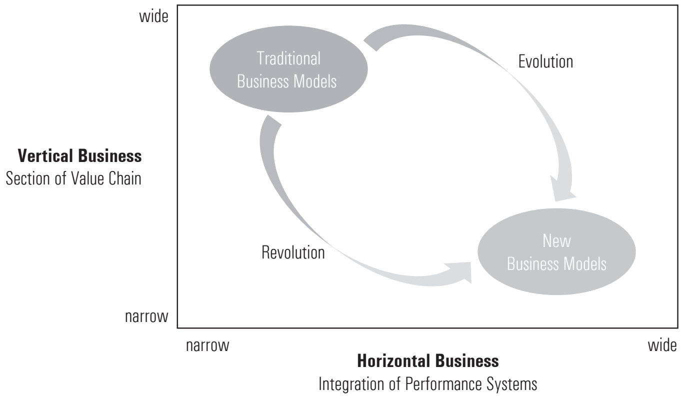

Figure 3-22: (Re-)Configuration of Business Units

Source: based on Belz and Bieger (2000, p. 523)

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Many traditional business models are being transformed by such evolutionary or revolutionary processes (Figure 3-22). These evolutions or revolutions now have the same thrust in many companies (Belz & Bieger, 2000, p. 523) — due to the trend toward bundling end-customer contact (i.e., integrating service systems expands the horizontal business area) and due to the tendency toward decomposing service provision systems (i.e., focusing on a smaller section of the value chain narrows the vertical business area).

In many organizations, sequential weighting occurs within the timing of optimization and renewal. For example, if an airline improves its existing route network, it is optimizing the status quo. If, for example, the airline reaches the limits of optimization due to technological change, then fundamental renewal is needed. This may lead to a fundamental reconfiguration of the company (e.g., by transferring the regional fleet to a new subsidiary or by joining a larger strategic alliance). Thus, optimization and renewal can always alternate: Optimization occurs until the limits of a model or configuration are reached and fundamental renewal is needed.

Often, however, optimization and renewal occur in parallel, at least in the planning stage. While one part of the company and management operates and optimizes the current business model, the other part works on longer-term, fundamental change. For example, while the main part of an insurance company is still selling traditional insurance policies through an agent network, one department is already working on Internet sales of completely redesigned insurance products tailored to individual risk through automatization, and may already be operating in pilot mode. The coexistence of old and new business models in the same company presents a particular management challenge. Cultures need to be bridged, and the different types of employees and business logics must be taken into account (Franz, Bieger, & Herrmann, 2017).

3.7.2 Crises as Triggers of Organizational Change

Often, the need for strategic change is only revealed by a crisis. Missing change or transformation (e.g., adapting to new technologies and market conditions) results in a strategic crisis. Consider a machine manufacturer that misses the transition to Industry 4.0 and becomes the only company in its industry not offering sensor-based remote diagnostics. Such a *strategic crisis* quickly develops into a *revenue crisis* as sales collapse, ultimately leading to a *liquidity crisis* and possibly insolvency (Figure 3-23).

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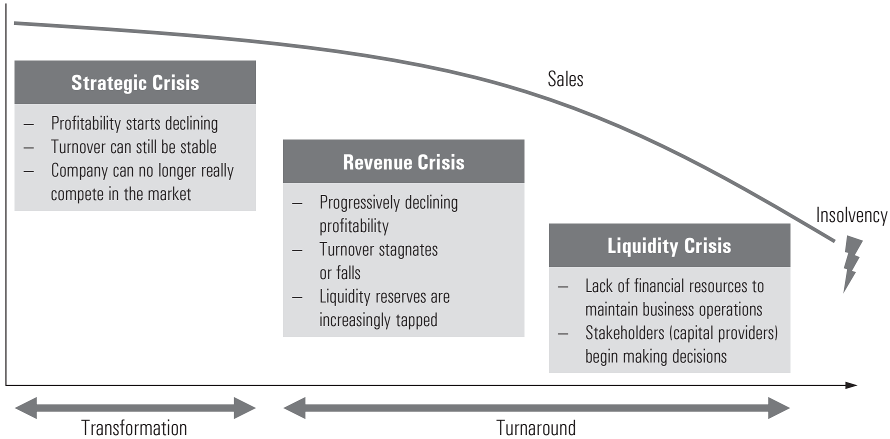

Figure 3-23: Three Types of Crisis

Source: Schmeisser, Bretz, and Keßler (2004); after Müller (1982)

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Conversely, an acute liquidity crisis, and thus often company closure, is preceded by an enduring earnings crisis based on a strategic crisis. For example, Air Berlin, which had to file for bankruptcy on August 15, 2017, was unable to resolve its earnings crisis, which had persisted since its IPO in 2006 (profits were only achieved in one year) (Eisenring, 2016). The repeated capital injections by new owners (e.g., Etihad Airlines) could not solve the problem, but only postpone it. Behind this earnings crisis stood a strategic crisis, which in turn was due to an unclear business model and a lack of competitive advantage (see Section 3.4.1). The problem is that strategic crises are more difficult to recognize than earnings or even liquidity crises. Often, therefore, transformation (reorganization) fails to occur in time, so that ultimately a turnaround (far-reaching reversal measures) must succeed at all cost.

Major renewal processes, also referred to as organizational change processes, must be purposefully managed. Organizational change is especially challenging and demanding. It requires organizational members, the environment (e.g., introducing a revolutionary technology in products), but also customers, to abandon old certainties and habits and to engage with the new circumstances. This raises basic questions for those affected: Will they be able to cope with the new tasks? And, if so, how? How will change affect other areas of life (e.g., private life)? If, for example, a disruptive strategy reduces the impor-

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tance of individual core competencies in the company, this will affect the professional identity of the employees working in this field and thus also their self-concept.

Organizational change processes always concern a key triangle: strategy, structure, and culture (see also Chapter 4). Thus, following Chandler (1962), as well as Osterloh and Frost (1996): Structure follows processes, processes follow strategy, and strategy is influenced by culture. To be successful, organizational change processes and projects must therefore fulfill various preconditions (Rüegg-Stürm & Grand, 2020):

– a careful narrative that enables those affected to understand that the process is necessary;
– creating certainty about the process;
– clarifying stakeholder expectations and thus creating trust in the process.

Chapter 3: Key Points

– Strategy is about securing and strengthening competitiveness (i.e., the long-term possibility of generating sufficient added value relative to competition).
– Competitiveness requires strategic success factors that create protectable competitive advantages. These can be inside-out (e.g., due to core competencies and patents) or outside-in (e.g., through positioning oneself in the market with a unique brand).
– Strategy work can be divided into the phases of the strategy process and requires asking the right questions to shape strategy content. Various tools and methods exist for developing and evaluating strategy alternatives.
– Strategy implementation concerns corporate development, which can take the form of optimizing evolution or renewing revolution — or a combination of both.

4 Structure and Culture

4.1 Case Study: Jungfraubahnen

Jungfraubahn Holding AG is a listed company in the transport and tourism sector. According to its vision, it wants to develop further toward becoming an integrated leisure company. The company operates a rack railway system from Grindelwald and Lauterbrunnen to the highest railroad station in Europe, the Jungfraujoch – Top of Europe. This internationally reputed tourist location attracts over a million visitors every year from across the world, of which 70 % come from intercontinental markets. In addition, the Jungfrau Railway Group operates other mountain railroads to adventure mountains (e.g., the gondola lift to Mount First, the mountain railroad to Mürren, and the funicular railroad to Mount Harder above Interlaken). In winter, together with partner companies, the company operates the Jungfrau ski region with over 200 kilometers of slopes. The company is structured into three segments: international excursion tourism with a focus on Jungfraujoch, adventure mountains, and winter sports. It also operates several ancillary businesses (e.g., its own power plant, adventure trips, a restaurant chain and stores, including a large flagship store in Interlaken).

With its wide range of offers, widely ramified operations, and diverse customer groups, Jungfraubahn Holding AG could be organized along various lines:

- In terms of "production operations," i.e., individual railroads and other operating facilities (individual railroads, power plant, restaurants).
- A divisional organization focusing on clearly defined segments.
- A process organization centered on individual customer and service processes.

Each of these possible organizational structures would entail different subordination relationships. In the case of a company organization, for example, the individual companies would be grouped together (e.g., ropeways). The advantage would be the focus on technology and thus possibly on cost optimization. A segment organization would subsume different types of operations (e.g., the marketing organization in Asia, train teams, main-line customer attendants, and group restaurants) under international sightseeing

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tourism. A process-oriented organization, on the other hand, would focus on customer processes, from acquisition to on-site support and aftercare.

For the management of Jungfraubahnen, there is no single correct form of organization. Rather, the organization must be adapted to the respective challenge, strategy, and objective. Until 2000, the organization focused on processes and segments so as to optimize customer orientation. In reality, the organization was a matrix organization whose main processes (i.e., segments) and individual operations had their own managers.

At the end of 2020, the company launched the V-Bahn, a generation project. Starting from a central terminal featuring a comprehensive range of stores, two new gondola lifts, a single-cable gondola to Männlichen, and a three-cable gondola to Eigergletscher station, now provide access to the area. The new terminal also ensures public transport connections. A rack railroad shuttle service from the Eigergletscher to the Jungfraujoch will reduce travel time to the “Top of Europe” by 47 minutes, opening up new market segments. The V-Bahn will also generate new visitor flows. Comprehensive shopping and catering facilities along the entire route will offer customers a completely new experience of the region (Jungfraubahn Holding AG, 2021).

Operating these largely redesigned offerings also requires a new organization, one now geared toward operations and types of operation. Among others, this also requires establishing a new executive management structure. The previous three-member core management team (with its extended, ten-person management team) will be transformed into a larger, six-person management team. This reorganization also requires comprehensive internal communications and development processes.

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Key Figures:

- Jungfrau Railway was founded in 1896; Jungfraubahn Holding AG has been a listed company since 1994.
- Today, the holding company has eleven subsidiaries.
- In 2019, the Jungfrau Railway Group employed over 600 people (FTEs).
- Operating income in 2019: CHF 223 million.

Discussion Questions:

A. What are the advantages and disadvantages of the organization before and after launching the V-Bahn?

B. Which strategy was better supported by the old organization, which one by the new organization?

C. What are the key challenges for shaping the corresponding organizational change process?

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4.2 Structure in the St. Gallen Management Model

The term "organization" can be understood in (at least) three ways (Thommen et al., 2017, p. 434):

– In *creative* terms: an organization is organized.
– In *instrumental* terms: an organization has an organization.
– In *institutional* terms: an organization is an organization.

In an instrumental perspective, an organization or a company needs structures as structuring forces (Rüegg-Stürm & Grand, 2020, p. 97). In this context, structures refer primarily to formal specifications so that it is clear which areas, units, or offices perform which tasks, who is authorized to issue instructions to whom and with what responsibility. More generally, structures are rules that an organization establishes for itself or that develop over time to provide orientation for its members. According to Giddens's theory of structuration, every social action automatically generates structures (Giddens, 1986). Every time people meet, for example, they are automatically divided into different roles. Thus, in addition to formal structures, informal structures (e.g., implicit hierarchies and "grey eminences"), role distributions and rules are created.

Structures shape a culture (Section 4.6) while a structure or its functioning is shaped by the prevailing culture. An organization's culture comprises the fundamental understandings, values, and norms that are expressed in the actions, modes of communication, decisions, structures, and artifacts (e.g., buildings or offices). In this sense, culture (norm) and structure (organization) are mutually dependent. Furthermore, an organization's culture is not homogeneous. Rather, group cultures or subcultures also emerge; this happens, for example, when, with increasing specialization, the respective specialists work together, form their own specialist language, understandings, and values, and thus set themselves apart from the outside world.

Organizational structures (in the sense of Chandler, 1962; extended on the basis of Osterloh & Frost, 1996) should be designed to support strategy implementation and the aligned core processes as well as possible. Hence, the guiding principle is: "Structure follows Strategy" (effectiveness). In the course of the trend toward "business reengineering" (reorganization of business processes), this became "structure follows process" in the 1990s and "process follows strategy" in the case of strategic process management (Osterloh & Frost, 1996, p. 7). Thus, processes should be oriented toward the underlying strategy

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and structures, in turn, toward those processes. A company's organization is therefore the last link in this chain and should be designed according to that company's strategy and processes.

The next subsection takes a more detailed look at the possible design of organizational structures. The four basic organizational types are presented: line-staff organization, matrix organization, network organization, and process organization.

4.3 Basic Types of Organizational Structure

The four basic types of organizational structure are based on different approaches to organizations. Each type (Figure 4-1) has distinct advantages and disadvantages or challenges, which are explained below.

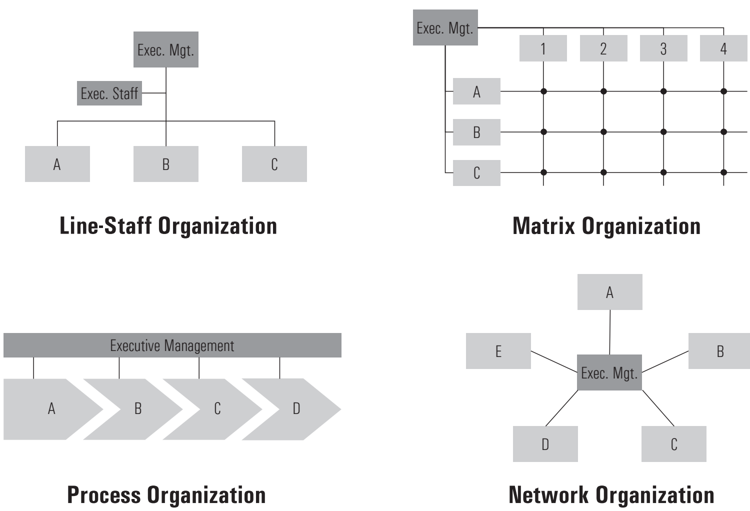

Figure 4-1: Four Basic Types of Organizational Structure

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4.3.1 Line-Staff Organization

An organization can be structured along various dimensions (e.g., by functions or divisions in a line-staff organization. Similar activities are grouped together as far as possible and are subject to clear (i.e., hierarchical) line management. Staff units supplement these structures with specialized functions. In a typical function-based line organization (Figure 4-2), growth is achieved by further differentiation. If, for example, a specialist department (e.g., R&D) exceeds a critical size (e.g., 20 staff), it is further subdivided (e.g., into a Research department and a Development department). In a division-based line-staff organization (Figure 4-3), entire business units can be integrated or separated out relatively easily, since (aside from central service areas such as finance, human resources, and legal) the various specialized divisions have very little in common.

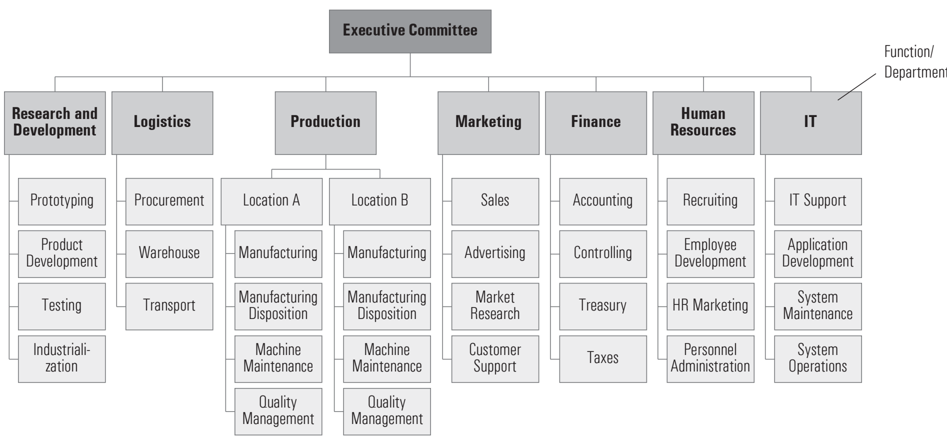

Figure 4-2: Example of a Function-Based Line-Staff Organization

Source: Rüegg-Stürm and Grand (2020, p. 100)

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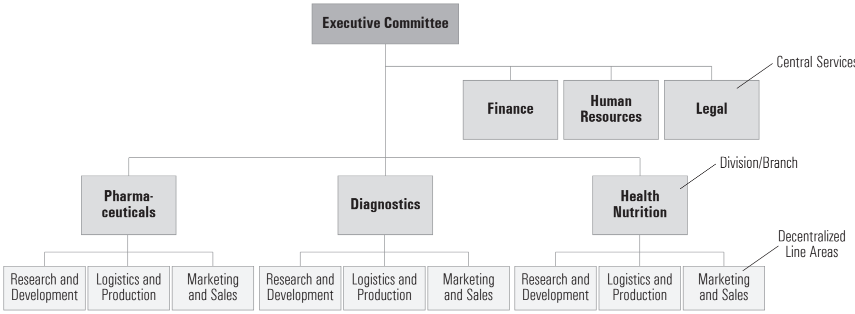

Figure 4-3: Example of a Division-Based Line-Staff Organization

Source: Rüegg-Stürm and Grand (2020, p. 101)

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4.3.2 Matrix Organization

Organizations can also be structured by business units or customer groups. This often leads to a matrix organization. As a rule, matrix organizations involve defining a primary dimension (customer groups or business units), which then accesses the individual functions (Figure 4-4) or regions (Figure 4-5). One challenge for such organizations is handling conflicts between two dimensions (e.g., between the concerns of a central communications department and those of a business unit).

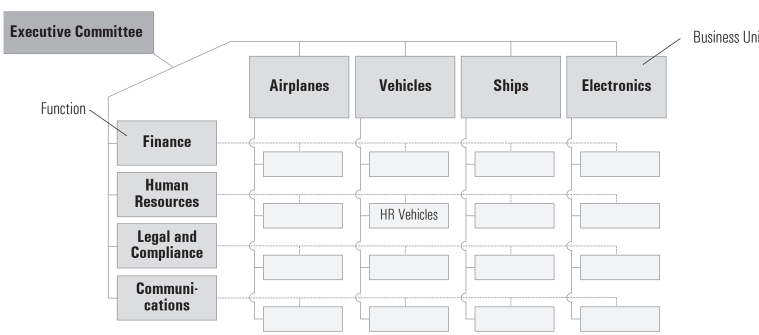

Figure 4-4: Example of a Matrix Organization (structured by strategic business units and functions)

Source: based on Rüegg-Stürm and Grand (2020, p. 102)

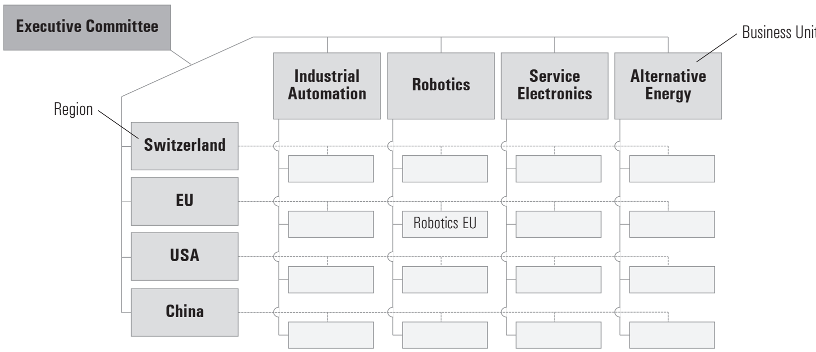

Figure 4-5: Example of a Matrix Organization (structured by strategic business units and regions)

Source: Rüegg-Stürm and Grand (2020, p. 102)

4.3.3 Network Organization

A third option is a network organization (Figure 4-6). This consists largely of independent units with great decision-making autonomy and managed centrally by a focal element in line with specific standards. Typical examples include holding companies (i.e., umbrella companies established to hold equity stakes in other companies), in which company headquarters does not define a structure but only individual targets (e.g., financial and quality targets).

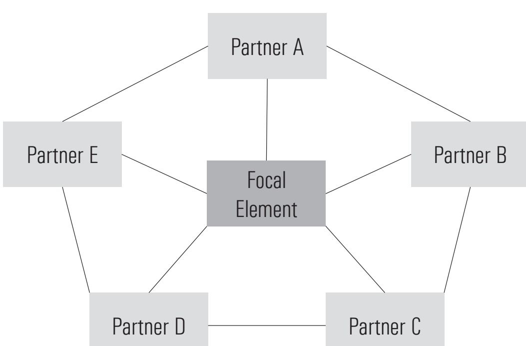

Figure 4-6: Example of a Network Organization

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4.3.4 Process Organization

A fourth option is a process organization (Figure 4-7). This aims to ensure standardized overall responsibility for a process and thus the greatest possible quality and handling efficiency from a single source. The challenge for a process organization is to coordinate individual processes and any specialist departments still existing along processes. Interlinking processes (e.g., recruitment in HR with the service processes of individual operating units) requires coordinating communication, work, and IT processes. Optimized "process engineering" and the associated tight coupling of IT and communication processes may also make organizations "freeze."

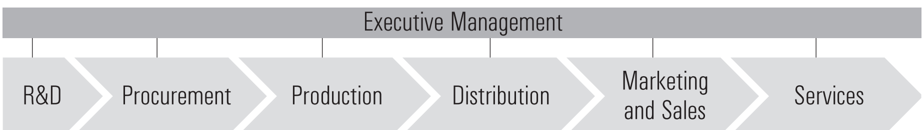

Figure 4-7: Core Process as a Value Chain

4.4 Determinants of Organizational Structure

Various factors influence the design of an organizational structure. Besides effectiveness ("structure follows process follows strategy") and efficiency (productivity, which would theoretically lead to maximum differentiation or specialization in the case of economies of scale), there may be many other objectives. These include organizational controllability and focusing on those concerned (e.g., avoiding monotony, ensuring occupational safety, ensuring freedom, and providing scope for intrinsic motivation; see also Section 5.2). Likewise, in many industries organizational standards are defined by regulatory authorities (e.g., requiring specialized departments such as internal auditing to be established).

This diversity of goals means there is no single optimal organizational structure. Moreover, organizational structure depends on task focus and primary goals, which may differ depending on an organization's development phase. For example, in a growth phase a company needs to focus more strongly on markets and to clearly define respon-

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sibilities in order to achieve its targets. In a creative startup phase, in contrast, an open, interdisciplinary team structure is likely to be central. Below, we present the key internal and external determinants of organizational structure.

4.4.1 Economic Effects

In an economic perspective, designing organizational structure is about creating the best possible conditions for establishing and exploiting strategic competitive advantages (see above “Structure follows Strategy”), as illustrated here with utilizing economic effects (so-called “economies”; see also Section 3.4.1).

– If production conditions enable *economies of scale,* then the same types of activities should be grouped together as far as possible. If, in microchip production, manufacturing circuit boards requires clearly structured production processes and machines that become increasingly efficient and reliable as the number of production activities increases, then it is worth concentrating production worldwide in a few sites and placing them under a single management with a clear functional line-staff organization (structured by function). Strongly hierarchical line-staff organizations are used to best support coordinating highly specialized activities. Similar activities are coordinated through the clearest possible standards and controlling specifications. Consider the production of bulk goods (e.g., steel), where specialized departments are developed for every service element (e.g., transportation or quality control).
– *Learning effects* offer cost advantages *and* quality advantages over competitors. Thus, the total number of services produced (e.g., the number of specific operations at a hospital) becomes a competitive factor. The underlying rationale in the hospital context is that surgeons who perform an operation more frequently not only operate better and more efficiently but also handle possible complications more effectively. Another

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advantage is that these specialists keep abreast with ever-expanding specialist knowledge. Against this background, treatments are bundled by specialty at one site. Consequently, hospitals often have a divisional line-staff organization (structured by division), in which professional responsibility is also clearly located in the respective division (clinic).

– If a business is characterized by very strong *network effects,* its goal must be to facilitate the fastest possible growth of the enterprise while ensuring cohesion. In this case, a network organization (e.g., based on a franchising system) may be suitable. Independent operations managers, who also bear economic responsibility, are loosely managed via contracts. Networks, as a form of organization, are suitable if largely independent units serve customers and are integrated and coordinated in order to generate customer benefit. In the case of a low-cost airline, for example, integrated "production cells" operating a few aircraft are managed loosely for every location. To some extent, these individual elements of the overall network coordinate themselves independently (e.g., by exchanging know-how or by helping each other out in case of bottlenecks via direct contact with other "production cells"). In the movie industry, different companies form networks for joint productions. In health care, care networks (comprising hospitals, doctors' practices, inpatient and outpatient facilities) work together to offer the most integrated care possible to a local or regional population.

– If, however, there are pronounced *economies of scope* and if, for example, comprehensive customer care can increase willingness to pay, it is worth aligning the organization with precisely these customer processes and, for example, offering optimum service quality for customers through a "one-stop shop." Such process organizations include financial services companies, which are structured according to customers and customer groups. Customer advisors coordinate all banking services for their respective customers, and thus also have internal primacy over other

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organizational dimensions (e.g., individual functions such as finance, human resources, and logistics). Customer- or process-focused structures are also evident at universities: Overarching processes (e.g., admissions) are managed centrally, and coordination takes place along the corresponding processes.

An organization's structure cannot be oriented solely toward economic considerations. The demands of the organization's internal and external worlds must also be considered. Often, different forms of organization overlap: This happens, for example, if the individual elements of a network organization are hierarchically structured, or if all customer-oriented activities are designed as a process organization, yet the company has a functional line-staff organization.

4.4.2 Legal Factors

Determining organizational structure is one of the most important tasks for top managers, also from a legal point of view. Accordingly, this task is explicitly regulated in Article 716a (Paragraph 1, Clause 2) of the Swiss Code of Obligations as an inalienable task of the board of directors (see Section 5.6). While corporate law (Binder, 2020) provides certain guidelines for implementing organizational structures, many organizational configurations are also governed by contract law (Roberto, Stehle, & Wildhaber, 2020).

- For example, a *line-staff organization* can be regulated as a hierarchical organization of internal departments (with line reporting and support staff) via organizational regulations; alternatively, it can be organized as a system of subsidiaries each with mutual contractual agreements.
- A *matrix or process organization* can also be controlled internally via service contracts (see Ellis, 2004). Ultimately, this enables creating an internal market of sorts: Specialist departments must apply to the individual business units or processes with their services. In extreme cases, the internal specialist department (e.g., the communications department) can also be exposed to external competitors (e.g., communications agencies).

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If those responsible for a process or business segment are not satisfied with internal services, they can switch to an external provider. In this extreme variant, specialist departments could even be designed as their own subsidiaries.

- A *network organization* can in turn be established within a legal entity, but also through a system of fully, mostly, or partially controlled subsidiaries each with their own legal personality, or indeed through a franchise system and thus through contractually bound independent legal entities.

4.4.3 Developments in the Environment

An organizational structure must be continuously questioned in the context of competition and strategy, environmental developments, and the changing expectations of internal and external stakeholders. This applies both to commercial enterprises and to all types of organizations (see Section 1.6). During the period of classical nation-state conflicts (19th and 20th centuries), military forces were organized hierarchically as highly specialized mass armies (infantry and artillery units were structured according to technical features). In today's often asymmetric warfare, in which no longer nation states go to war, but self-defined "warlords" and rebel groups, armies also need flexible network organizations.

Autonomous combat units integrating all necessary specializations are organized as a network in this new type of conflict. The shift from hierarchical armies to flexible, networked special forces is also a lesson that has been learned from recent conflicts in the Middle East or Afghanistan. In this regard, US General McChrystal (2011) aptly pointed out that a network can only be defeated by a network. This idea likely also applies to business: A hierarchically managed catering group can hardly compete against and beat a flexible network of largely independent, motivated, entrepreneurially managed catering businesses able to react agilely to local markets.

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4.4.4 Growth and Internal Specialization

Besides strategic change, growth combined with specialization is a key driver of organizational development (Rüegg-Stürm & Grand, 2020). Growth leads to larger organizations, which in turn presents various challenges:

- In order to prevent too large management spans (i.e., too many direct subordinates), more hierarchical levels are introduced, especially in line-staff organizations. Additional hierarchical levels extend official channels, thus slowing communication and decision-making processes. Hierarchical barriers also tend to emerge from individual hierarchical levels (e.g., middle management) developing their own identity based on their own artifacts (e.g., reserved cafeteria seats) and dealing with issues in their own way according to their own agendas.
- In order to benefit from the more extensive division of labor possible in larger organizations, similar functions are grouped together in specialist departments. Functional specialist departments may, however, lead to silo thinking (see Section 1.4). Employees orient themselves increasingly toward the standards of their own occupational group (e.g., the special features of a production department, the identity of a marketing or controlling department). From this alignment with standards and day-to-day collaboration emerge distinct terminologies and jargons, as well as particular notions of organizational functioning and success. Such developments are reinforced by functional training, or when professions develop their own licensing requirements (as happens with lawyers or physicians). Such differentiation into specialisms promotes effective and efficient collaboration within departments while potentially complicating the coordination of differentiated departments. Consequently, the superordinate level is increasingly challenged to bridge these divisions and thus to enable an integrative handling of management tasks. For instance, management may need to mediate between controlling (focused on rather short-term key performance indicators) and marketing (focused on longer-term, difficult-to-measure reputational goals).

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Together, these functional and hierarchical barriers create a fragmented organization. Fragmentation means the formation of different operational islands (Figure 4-8). There is a danger that a specialist department, often still differentiated by hierarchical level (e.g., controlling clerks), develops its own goals, which are oriented more toward professional status and hierarchical standing, and thereby neglects larger, overarching organizational goals (Hörrmann & Tiby, 1990; Vahs, 1997). Every organization therefore needs to have in place measures for dealing with and preventing such developments, so as to ensure cohesion. Possible measures include boundary-spanning tools (e.g., management models business planning, or appropriate management and communication measures; see also Section 1.4).

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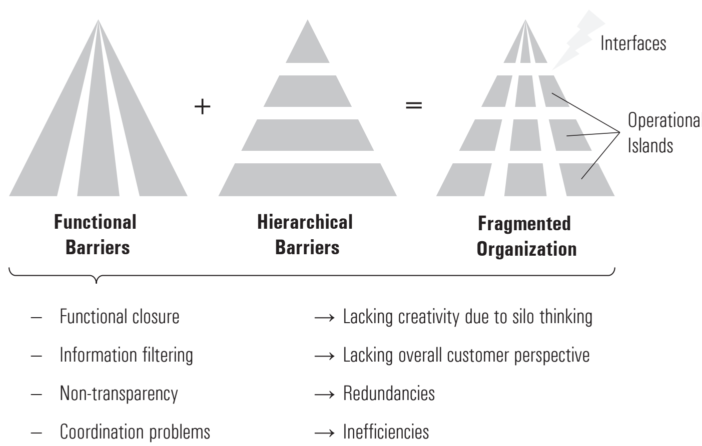

Figure 4-8: Design Flaws of Traditional Organizational Forms

Source: based on Hörrmann and Tiby (1990, p. 76)

4.5 Implementation of Organization

Designing organizational structure involves assigning tasks appropriately to objectives. The smallest task-bundling units in an organizational structure are jobs. At the next level, jobs with similar or complementary activities can be grouped into departments. Depending on company size and organizational structure, departments can be combined into larger units (e.g., divisions).

At all levels (job, department, division), it is central to define and coordinate the tasks, competencies, and responsibilities of the individual units. This is done, for example, with the help of function diagrams (Figure 4-9). Within such diagrams, tasks are assigned to units while the powers of individual positions are determined (e.g., planning, decision, codetermination, execution, withholding approval). In practice, various schemes such as RACI (Responsible, Accountable, Consulted, Informed; Jacka & Keller, 2009) have established themselves. Functional diagrams not only provide an overview, but also enable verifying adherence to organizational principles such as avoiding duplication of responsibilities (e.g., when two units make decisions on the same issue).

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Organization and Personnel	Board of Directors	President of the Board	Delegate of the Board	Office of the Board	Executive Management	External Consultant
Determining basic organizational chart and organizational regulations	D/O		R		A	C
Determining and adjusting function diagram	D		A/R		A	C
Convening the BoD, setting the agenda, and providing documents		D/R		A		
Determining information and reporting system	D/O		A		A	
Determining HR policy; esp. appointment of executive management team	D/O		A		A	
Hiring, dismissing, and promoting executive managers	D	R	A		A	
Hiring, dismissing, and promoting other employees	I	D		A		
Determining salary and qualification system	I	D		A		
Organizing employee benefit and pension scheme	D	A/O		A/O		
Defining tasks, competencies, and responsibilities of executive level and above	D	O				
Defining tasks, competencies, and responsibilities below executive level		I		D		

Key: A: Application/Preparation | C: Consultation | D: Decision/Resolution/Approval | I: Information Request | O: Oversight/Control | P: Protocol | R: Realization/Execution

Figure 4-9: Functional Diagram for “Organization and Personnel”

Source: based on Müller (2007)

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For more complex projects and tasks, process organization tools are introduced. *Organizational structure* (i.e., the structural division of the company into organizational units) and *process organization* (i.e., the definition of the company's work processes) are intimately related (Thommen et al., 2017, p. 438). They provide different perspectives on the same issue: a company's organization. While organizational structure defines the organizational framework, process organization regulates the work processes to be carried out within this framework.

Attention turns to process organization when organizational structure complicates the execution of complex projects and tasks, which makes taking a closer look at processes helpful. If, for example, the members of different departments need to handle a project or a complex customer order, the official channels of a line-staff organization make cross-departmental coordination difficult. Considering process organization enables assigning individual processes to individual units; this also reveals their dependencies and conditions in terms of time and substance.

Examples of processes that need to be structured by process organization include the granting of building permits in public administration, the planning and delivery of a specific production plant in a mechanical engineering company, or an emergency intervention with follow-up treatment in a hospital. Throughout, the individual process steps are planned out in terms of time dependencies and departmental responsibility. Classical instruments include bar charts (Wellman & Zelms, 1995) or the network planning technique (Osterloh & Frost, 1996). Sequence planning also serves as a basis for designing information technology infrastructures (Österle, 1995, p. 85).

In a bar chart, the various processes and process steps are entered as horizontal bars on a time axis and, if necessary, are also assigned to individual units (Figure 4-10). This technique is used in particular to schedule projects.

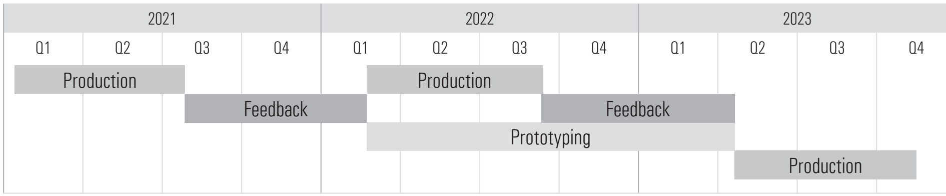

Figure 4-10: Sample Bar Chart

In the network planning technique, individual processes and process steps are enchained and displayed in a network plan as a graphical sequence of activities (Figure 4-11). As an activity may involve several upstream or downstream processes, the result is a network of interlinked operations.

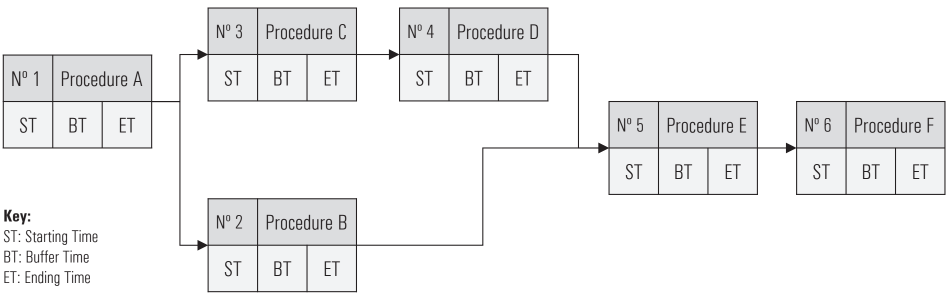

Figure 4-11: Example of Network Planning Technique

Every organization has a formal and an informal dimension (Krackhardt & Hanson, 1993). Formal service lines, hierarchies, or processes are overlaid by emotional relationships, friendships, and other personal networks. These additional levels define information flows, but also dependencies (e.g., when a subordinate at a company captains the local tennis team). As a visualization of the formal structure, an organizational chart represents only part of organizational reality. Although such charts depict hierarchical relationships and official channels, these do not necessarily reflect the actual (i.e., lived) interactions and informal orders within an organization (Figure 4-12). In parallel to formal definitions, other less visible, yet effective structures may have developed over time. For example, mutual advice may be sought

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via other paths, and trusting relationships may be cultivated in other ways than the organizational chart would suggest.

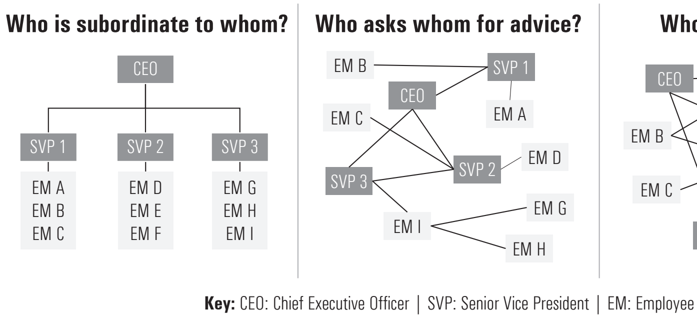

Figure 4-12: Formal versus Informal Organization
Source: based on Krackhardt and Hanson (1993)

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4.6 Culture

Peter Drucker is credited with saying that "Culture eats Strategy for Breakfast." This striking statement captures the fact that a strategy and an organization function only in terms of a culture that supports them. At the same time, an organization shapes a culture, for example, by forming its own demarcation mechanisms toward the outside and integration mechanisms toward the inside. External demarcation mechanisms can be cultural or structural (e.g., a business secret that restricts exchanging information with members of other companies). Internally, these mechanisms can be value concepts or even terminology that form a corporate culture and differentiate it from other organizations (see also Section 4.2).

4.6.1 Interpretation

Thus, identifying and shaping organizational culture is highly important. An organization's culture is its way of life, the way organizational members typically handle topics and make decisions (i.e., practices and routines). It is also oriented toward a common "horizon of sense and meaning" and it serves as a jointly usable "interpretive aid" that enables employees to appropriately interpret events and developments in their organization and its environment (Rüegg-Stürm & Grand, 2020, p. 105). Although organizational culture is implicitly effective, it often becomes visible and "readable" in materialized form. Such "artifacts" of organizational culture include office design, expectations about working hours, or supply arrangements. Note that culture evolves over time (i.e., has a deeply ingrained historical component) (Rüegg-Stürm & Grand, 2020, p. 104).

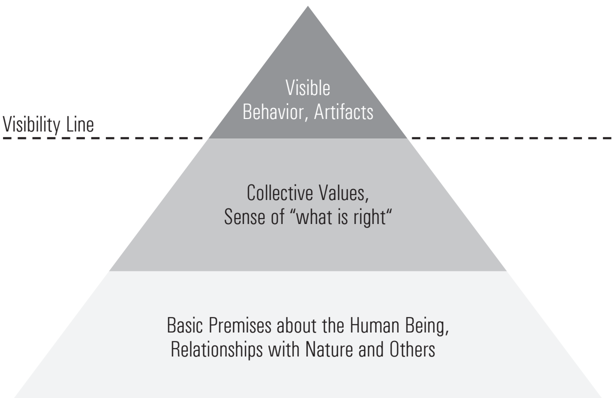

Figure 4-13: Model of Culture Levels
Source: based on Schein (1985, p. 26)

If an organizational culture is to be designed, it first needs to be understood. This may be done in various ways. One widely used approach is Schein's model of culture levels (Figure 4-13), which divides culture into different levels (Schein, 1985):

– At its lowest level, a culture consists of so-called *basic premises.* In the case of an organizational culture, these include the fundamental assumptions about the company's environment. For example, a company can perceive its environment primarily as competitive or as cooperative. Other relevant questions include the organization's function and purpose in an economy and a society, as well as its most important success factors. With a university, for instance, this may be the conviction that a stronger entrepreneurial approach compared to other universities ensures that the university keeps pace with new developments and

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funding. Basic premises are not directly visible; together with values, they form what is often referred to as "lying beneath the waterline" (imagine an iceberg).

- The second level concerns *collective values.* This is also referred to as the proclamation level because it focuses primarily on the communicated values, which are often articulated in a mission statement. For example, a company that views its relationship with its environment chiefly as cooperative may espouse corresponding values (e.g., tolerance or the search for balance), whereas a more competitively minded company may emphasize rivalry and achieving success through performance. In the case of the university described above, values such as liberal thinking, initiative, and personal responsibility are likely to be strongly emphasized.
- The most visible level of a culture concerns *artifacts,* which include observable behaviors or visible physical symbols. In a collaborative culture, for example, an intangible artifact may be starting every meeting by asking participants how they feel or when every motion is first acknowledged positively. Physical artifacts can include particular office formats or artworks whose design and messages represent company culture.

Gaining a holistic understanding of a culture begins by addressing all three levels. For instance, a organic food producer may regard its purpose as combining the pursuit of healthy nutrition with sustainable production methods. The specific values, which are then also expressed in that company's mission statement, could be the pursuit of harmony, balancing conflicts of interest, and building trusting relationships. On the level of artifacts, this could manifest in the near-natural architecture of the production facility (i.e., with the greatest possible natural surface and maximum plant biodiversity).

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4.6.2 Typologies

While Schein's (1985) model emphasizes the levels for describing a culture, Hofstede (2001) proposes a content-based description of different social cultures. He uses six dimensions to compare cultures:

- Power distance
- Individualism
- Masculinity
- Uncertainty avoidance
- Long-term orientation
- Indulgence

Hofstede (2001) also uses this typification to describe national cultures. For example, Scandinavian cultures exhibit small power distance and low masculinity, while Switzerland is dominated by high uncertainty avoidance and strong long-term orientation (Hofstede Insights, 2020).

In addition to Hofstede's dimensions, other approaches to typologizing cultures have been proposed. Deal and Kennedy (2000) for example, classify corporate cultures based on a matrix consisting of two dimensions: "risk propensity" and "feedback speed." Accordingly, this matrix consists of four fields with different types of culture (Figure 4-14). This typology can be used to illustrate the importance of the interaction between culture and structure. For example, a bureaucratic "process culture" can completely block the dynamics of a network organization.

		Risk propensity	
		Low	High
Feedback speed	Fast	**Work Hard Play Hard Culture** Bread and Circuses Culture	**Tough-Guy Macho-Culture** All or Nothing Culture
	Slow	**Process Culture** Bureaucratic Culture	**Bet-Your-Company Culture** Analytical Project Culture

Figure 4-14: Typology of Culture

Source: Deal and Kennedy (2000, p. 107)

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An organization's culture can be changed only if it is first closely examined. Not only artifacts can be considered, for example, by implementing a new standard meeting agenda (e.g., success indicators are reported at the beginning of meetings). The basic premises, myths and stories, and the proclaimed and implicit values of organizational members as individuals and as a community also need to be examined. Shared experiences such as overcoming a crisis can be an opportunity if collective reflection processes serve to formulate a common understanding and thus new basic premises. If, for example, a company reacted flexibly to the coronavirus crisis through its organizational members assuming great personal responsibility, the most fundamental level of a culture (i.e., its basic premises) can be changed by addressing this logic of success and by making special achievements visible (Rüegg-Stürm & Grand, 2020, p. 109).

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Chapter 4: Key Points

- Organizational structures must be aligned with strategy implementation and made compatible with culture.
- There are four basic types of organizational structure: line-staff organization, matrix organization, network organization, and process organization.
- Structuring an organization may pursue various goals, some of which are contradictory. Thus, there is no single right organization. The organization must align itself with its main task or challenge.
- Important organizational objects include allocating tasks and competencies to positions (e.g., using functional diagrams and job descriptions) and designing the process organization (e.g., using bar charts or network planning).
- Culture always needs to be considered and shaped; depending on the level of observation (artifacts, values, basic premises), culture is not always directly observable or understandable.

5 Leadership and Governance

5.1 Case Study: Viu

The founders of Viu Ventures AG wanted to address two main problems of the eyewear industry: First, to reduce high distribution costs through direct, Internet-based customer contact; and second, to lower product costs by eliminating intermediaries and working directly with small production companies. Central to Viu's business is a consistent product orientation with high quality eyewear at fair prices.

Viu's "Direct to Consumer" principle was a cornerstone of its founding vision. Initially, the company focused on the online channel and on the convenience of "trying at home." At the same time, many customers expressed a need for personal advice and, above all, individual frame fitting. This insight led Viu to open a store at Grüngasse in Zurich already after a few months to complement its online store (shopviu.com). Further stores were opened soon afterward, in Zurich, Basel and later also in Munich, where the company's second headquarters are located today (in addition to Zurich).

Following strong growth, Viu is now present in several countries with over 50 stores. Launched in 2013 — with the founding idea of fundamentally changing the traditional eyewear business and conducting it via the Internet — Viu now generates over 90 % of its sales via store transactions, although the online channel continues to be significant in the "Customer Buying Cycle." Many customers use the website at various points in their "Customer Journey" (e.g., for the "Virtual Try-on," "Try at Home" orders, or other services such as booking eye tests) (Viu Ventures AG, 2021).

Today, Viu's growth is mainly driven by developing its store network. Stores are managed according to clear targets with financial incentives via three management levels (Store Management, Area Management, and Head of Retail). At the same time, the company identifies future issues chiefly in digitization and 3D printing. The goal is to find the perfect frame for every face shape. Key topics include developing face recognition, materials knowledge, and printing technologies (even if this need not be done internally).

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One of the main challenges facing Viu's management is the tension between the more traditional, physical retail business model and the innovative further development of Internet-based solutions. The company's pronounced startup culture is based on intrinsic motivation and personal responsibility. Its rapid expansion has challenged its existing structures and processes. The key issue in recruiting employees is "cultural fit." Great curiosity and customer proximity are expected. Instead of dress codes, close attention is paid to applicants' networking skills as glasses are sold increasingly via recommendations (word-of-mouth).

An important leadership principle at Viu is "empowerment": Employees are expected to act independently within clear objectives, which are defined and checked with quantifiable key results (i.e., "Objectives and Key Results," OKR). This modern management tool has been widely adopted by American technology companies such as Intel and Google and is based on "Management by Objectives" (MbO), a management technique going back to Drucker (1954). Viu's organization is project-oriented. All activities, from opening a new store to developing new products, are defined as projects. The key internal working tool is Asana's project management software. Accordingly, the company has a "no email policy" for all internal communications. Messages, information, and decisions are linked to projects and recorded in the project management tool. Employees are motivated and informed at annual employee conferences and Wednesday team calls (in German and English) serve information exchange and discussion.

Kilian Wagner, one of the company founders, describes his personal development following the company's growth as "from player to player-coach." The goal today, he says, is to empower other players (e.g., branches) and to be on the field as little as possible. One third of Viu employees now work at the Zurich and Munich headquarters and are involved in product development and designing online services. Two thirds work in sales and service. Recruitment is done using various tools, from personnel consulting to Internet postings and recommendations. Current employees are encouraged to recruit colleagues. In order to ensure "cultural fit," until recently all employees were interviewed by the founders; today, this task is distributed among other management staff.

The Board of Directors (BoD) also plays an important role in the company's ongoing development by contributing industry and technical expertise. From the outset, investors have also sat on the BoD alongside the founding team. Board composition is driven mainly by asking which competencies and resources can be tapped in addition to existing ones. Key topics include managing complexity and the future growth strategy.

Kilian Wagner recalls the months after the company was founded, when the head office and the first store shared premises at Grüngasse in Zurich: When customers entered, office staff could literally walk through the wall into a sales conversation. Customer feedback flowed directly into product and platform development. Physical customer service and the development of online offerings formed a symbiosis on the same site. Today, Viu has stores in six countries. Obviously, geographical distances between headquarters and stores, as well as hierarchical distances between management and employees, have increased due to strong growth. This raises the question about how the company's management and governance must evolve in the face of increasing complexity.

Key Figures:
- Viu was founded in 2013.
- Today, the company employs around 350 people.
- Viu operates over 50 stores in several countries across Europe.

Discussion Questions:

A. What key leadership challenges does Viu face as a result of its strong growth and its two types of operation (i.e., service-oriented stores and creative headquarters)?

B. How does Viu's strong growth require its leadership style and leadership tools to evolve?

C. What personnel management tools will be important at Viu in the future?

D. What function does the Board of Directors have in the startup phase compared to the growth phase?

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5.2 Human Nature and Motivation

Companies and organizations are purposeful socio-technical systems (Ulrich & Krieg, 1972, p. 17). The most important level of such systems is people and their communities. This involves using leadership to guide individual and community behavior toward a common goal. Stogdill (1950) defined leadership in very general terms as the process of influencing the actions of an organized group toward goal setting and goal attainment. Leadership requires understanding the goal-related and motivational structures of those who are led. Every leadership style and leadership behavior is informed by a concept of the human being. This reflects basic assumptions about individual behavior in the organization. Motivation can be described and explained with the help of content or process theories. *Content theories* describe specific motivational structures that determine human actions, while *process theories* apply suitable models to describe how motivation comes into existence.

5.2.1 Content Theories

One of the best-known content theories of motivation is *Maslow's pyramid of needs* (based on Maslow, 1943). This model hierarchizes human needs (Figure 5-1) and assumes that humans first want to satisfy their physiological needs (e.g, food, sleep, reproduction). Next come security needs (e.g., health, work, housing) and social needs (family, friendship, communication). Only at a later stage of development do individual needs (e.g., independence, esteem, self-affirmation) become dominant. According to Maslow (1943), when these potential deficits have been eliminated, self-realization comes to the fore: Humans seek meaning in life and want to develop their own potential. These insights can also be applied to today's working world: Many people are no longer just looking for job security, but wish to work an environment with a good "team spirit," mutual appreciation, and the opportunity to realize themselves, to fill their self-concept with "purpose."

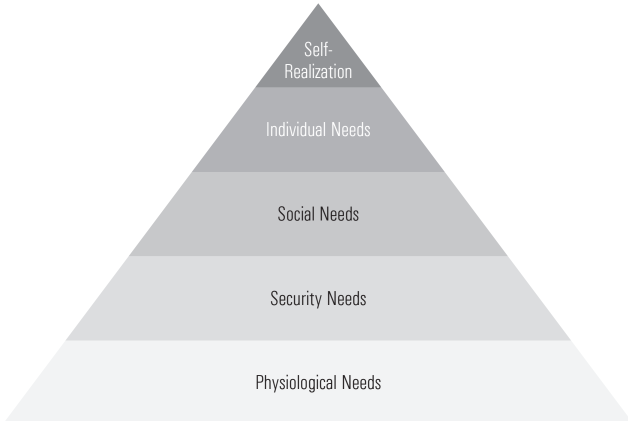

Figure 5-1: Hierarchy of Needs
Source: based on Maslow (1943)

Another important content theory is Herzberg's (1968) *two-factor model* (Figure 5-2). This classifies motivational factors in terms of how far they promote satisfaction ("motivators") or merely serve to avoid dissatisfaction ("hygiene factors"). If a company improves its hygiene factors, this does not yet increase work motivation, but only eliminates dissatisfaction. According to Herzberg (1968), the perceived quality of company policy and administration (organization, goals, rules, procedures, etc.) is the most important hygiene factor, followed by competent superiors and personal relationships with superiors. Herzberg (1968) identified a sense of achievement, recognition, and fulfillment as the most significant motivators. However, not all factors can be assigned clearly to one or the other category; for example, income can be both a hygiene factor and a motivator. A fair basic salary serves to avoid dissatisfaction, while perks (performance bonuses) are likely to increase satisfaction.

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Hygiene Factors	Motivators
Company policy/administration	Performance/sense of achievement
Competence of superiors	Recognition
Relationship with superiors	Work itself
Working conditions	Responsibility
Status	Progress/promotion

Figure 5-2: Selected Motivational Factors (ordered in descending order of importance, i.e., frequency of mentions)

Source: based on Herzberg (1968, p. 57)

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Similarly to Herzberg (1968), Deci and Ryan (1985) introduced two motivational concepts: extrinsic and intrinsic motivation. *Extrinsic motivation* is based on external incentives (e.g., salary, title). Intrinsic motivation results from the meaningfulness of work and from the satisfaction with one's contributions and possibilities to be creative. If work is well-structured (e.g., assembly line performance), extrinsic incentives are likely to positively influence motivation or performance (in the short term). More comprehensive work, on the other hand, requires intrinsic motivation. In activities such as teaching, research, and building maintenance, it is never possible to measure and evaluate all performance factors. This explains why extrinsic motivation (e.g., through monetary incentives) is not enough in itself. In the worst case, extrinsic incentives override intrinsic motivation such that attention focuses mainly on what is being measured (Deci & Ryan, 1985). What is not measured no longer takes place (e.g., talent development as part of managerial responsibility). The nonmeasurable parts of a task are neglected.

5.2.2 Process Theories

Process theories consider not only different motives and incentive types, but also the perceptual and evaluative processes involving factors such as how likely an action will succeed in terms of goal attainment. Success expectation and its effect on motivation is considered, for example, in *valence-instrumentality-expectancy theory* (Vroom, 1967). This theory maintains that motivation results from the perceived probability of being successful (expectancy), the desired consequences of an action (instrumentality), and the value of successful action (valence). Valence, in turn, is influenced by various motives and incentives (Figure 5-3).

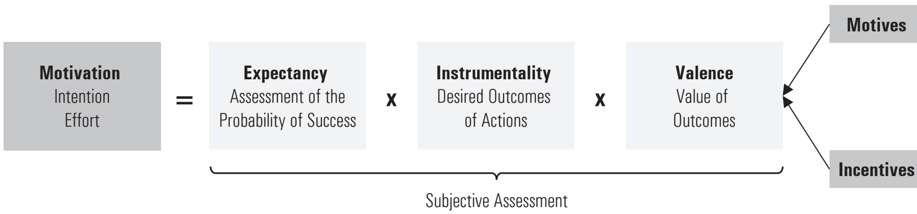

Figure 5-3: Valence-Instrumentality-Expectancy Model
Source: based on Vroom (1967)

5.2.3 Concepts of the Human Being

The assumptions underlying the aforementioned motivational approaches correspond to different concepts of the human being. These are ideas about how people behave and can be influenced. Like all other people, managers are also guided implicitly or explicitly by concepts of the human being. Organizations often also base their structure and leadership concepts on (implicit or explicit) notions of the human person. McGregor (1960) distinguished two extreme concepts of human beings:

– *Theory X* holds that human beings are basically inert and act only on external impetus. Accordingly, commands, instructions, controls, and external incentives are important.
– *Theory Y* maintains that people are intrinsically motivated. In this view, meaningfulness of work, one's creative contribution, and appreciation are important. Thus, delegation of responsibility and participation are important management principles.

Concepts of the human being tend to be self-fulfilling: For example, if an organization is geared purely toward extrinsic motivation, and therefore deploy a correspondingly large number of control and reward instruments, it also trains people to demand incentives and rewards and to act only when they are controlled. At work in such cases is the aforementioned tendency to control intrinsic motivation through too many (as well as misplaced) extrinsic incentives. This happens, for

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example, when enthusiastic professionals join a company and discover that they are controlled and dominated by bureaucratic mechanisms. They discover that only what is recorded by control mechanisms is valued, and that their colleagues are geared toward optimizing bonuses and rewards. Accordingly, they grow accustomed to the system and do what they would do voluntarily less and less without being rewarded. As a result, what is not measured is no longer done at all.

5.3 Leadership in the St. Gallen Management Model

Leadership and management processes strive to align organizational actors and goals. These processes have been integral to the SGMM ever since its first generation (Ulrich & Krieg, 1972):

– Management processes: These are an organization's planning and management processes, which as a rule extend over a year (analyzing goal attainment, budget and action planning, implementation, reviewing goal attainment), and form the basis for setting organizational and individual goals.
– *Support processes,* especially in the context of HR processes in the sense of structural management measures (e.g., recruitment, remuneration and compensation, personnel development).
– *Governance,* as an organization's fundamental and stabilizing control systems.
– As part of *structure,* in that organizational structure defines the framework and responsibility of leadership.
– As part of *culture,* since leadership culture is an important part of corporate culture.

While the current generation of the SGMM no longer explicitly addresses leadership processes, it clearly distinguishes management, leadership, and profession-related leadership within the practice perspective (management practice) (Rüegg-Stürm & Grand, 2020, pp. 245-248):

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- *Management* is the reflective design of value creation systems, and thus refers to the "macrocosm" of organizational leadership.
- *Leadership* is the management of people and employees, and thus focuses on the immediate work context of management and refers to the "microcosm" of organizational leadership.
- *Profession-related leadership,* as leadership through highly specific, task-centered specialist expertise, also focuses on the immediate work context and thus on the "microcosm." In contrast to leadership per se, however, profession-related leadership is not about performing leadership through "communicative interventions" but through elaborate specialist knowledge (e.g., a surgeon in the operating room).

Just as different management approaches build on different ideas and assumptions about how organizations function, different leadership approaches build on different concepts of the human being. Below, we discuss personal leadership as interpersonal action, human resource processes, and governance.

5.4 Leadership

Leadership occurs when individuals with specific goals mobilize institutional, political, psychological, and other resources in competition with others such that they motivate and keep motivated those who are led (Burns, 1978, p. 18). Leadership can thus be understood as an attempt to exert influence in order to motivate group members to perform, and thus to achieve group or organizational goals (Weinert, 2004, p. 458). This takes various forms. So-called leadership styles vary depending on organizational type and culture or on the situation at hand. Over time, and based on their experience, leaders also develop their own leadership principles or precepts that guide them in their leadership activities. Various leadership styles and leadership principles are introduced below.

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5.4.1 Leadership Styles

Leaders can influence employees in different ways. Different leadership styles can be distinguished (Figure 5-4). These are often classified on a continuum from authoritarian to democratic (Tannenbaum & Schmidt, 1958). In both authoritarian and patriarchal leadership styles, leaders make decisions themselves, might seek to persuade others, and enforce their decisions with harsh measures. At the other end of this continuum are more participatory and democratic leadership styles, which vary in degree. In these styles, decisions are taken in various ways together with those who are led. The minimum requirement is that a leader approaches every individual member of a group for information and assessment. This may occur individually or in open discussions, the main difference being that the latter have no information asymmetries: The leader does not have a monopoly of information as a source of power. In the extreme case of delegative or even democratic leadership, a leader hands over decisions to the group (possibly with a specific framework).

Style	Authoritarian	Patriarchal	Consultative	Advisory	Participatory	Delegating	Democratic
Leader's information behavior	Refers to available information	Refers to available information	Asks others for their opinions	Asks (the group) questions and suggests ideas	Presents the problem to the group	Presents the problem to the group and provides decision scope (e.g., budget)	Only coordinates; group defines the problem and possible solutions independently
Decision-making competence	Leader decides	Leader decides	Leader decides	Leader decides	Leader decides based on the group's suggestions	Group decides	Group decides
Decision enforcement	Instruction	Instruction and explanation	Instruction and explanation	Instruction and explanation	Instruction and explanation	Group persuasion/pressure	Group persuasion/pressure

Figure 5-4: Leadership Styles

Source: based on Tannenbaum and Schmidt (1958)

In addition to the one-dimensional continuum of leadership styles, there are also multidimensional structurings such as Blake and Mouton's (1964) "managerial grid" (behavioral grid): This distinguishes between human orientation and factual orientation, and delineates five basic leadership behaviors, each of which affects employees and operational success differently (Figure 5-5).

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Figure 5-5: Managerial Grid

Source: based on Blake and Mouton (1964, p. 28); Thommen et al. (2017, p. 519)

Since the late 1990s, the concept of transformational leadership (Burns, 1978) has attracted increasing attention. It serves as a counter-model to transactional leadership (Bass, 1999). Because *transactional leadership* implies close control with a large share of performance control and incentive mechanisms, it corresponds largely to the aforementioned concept of the human being of theory X (see Section 5.2.1). *Transformational leadership,* on the other hand, works through exemplary action (i.e., leader as role model), awakens inspiration and intrinsic motivation, and changes the attitudes of subordinates, so that they ultimately behave in the interests of the organization. An important leadership tool in this regard is the representation of meaningfulness ("purpose"). This type of leadership is strongly linked to the concept of the human being of theory Y. While transactional leadership is mainly based on direct tools and techniques, transformational leadership requires vision, personality, and "charisma." Especially when members of Generation Y and Generation Z enter the working world, they consider meaningful work and opportunities for personal development at least as important as monetary rewards (Robinson, 2019) — a phenomenon that transformational approaches are likely to address better.

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Importantly, there is no single correct leadership style. For example, the *theory of situational leadership* states that, in order to be effective, leaders need a different leadership style depending on the situation. This approach belongs to so-called contingency theory (Lawrence & Lorsch, 1967). This assumes that the tension between differentiation and integration is constitutive for organizations (see also Section 4.4). Differentiation enables efficiency gains or learning effects via increasing specialization and division of activities. These, however, must be reintegrated, in order to benefit customers either as a product or as a service. Yet there is no single best solution for this force field (i.e., one that would be either comprehensive or permanent). Instead, contingency theory characterizes decision situations from which it derives recommendations for action.

With regard to leadership, Hersey and Blanchard (1969) are among the best-known representatives of contingency theory: Their model shows that a manager's leadership style should be more task- or relationship-oriented depending on employee maturity. Other situational factors include time availability or task complexity. The more time and the more complex the task, the more "team wisdom" can and should be used. If, however, decisions need to be made at short notice in the face of clearly defined problems (e.g., savings measures to be implemented immediately in a crisis to preserve liquidity), then authoritarian decisions are called for. These also have the advantage of relieving the group. Moreover, they help to avoid tough disputes, which might split the group (due to conflicts of interest and emotional upheaval) and even leave noticeable scars in the long term.

5.4.2 Leadership Principles

As mentioned, as with many management issues, there is no absolute right or wrong when it comes to leadership. Rather, it is a matter of matching context, task (strategy), leadership personality, and organizational culture, among others. A fit with all of these elements enables authentic and credible leadership. This also explains why a leader might be unsuccessful in one context but successful in another. In principle, managers should always question themselves. So-called leadership rules can serve them as guidelines.

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Leadership rules are principles, quasi "firm precepts" of leadership. Leadership rules can be found both in history and in different types of organizations. Below are two examples from religion and the military. Today's leadership styles can be derived, among others, from the rules of Benedict of Nursia (Benedictine Rules). What he recommends in his third chapter (Figure 5-6) corresponds to Tannenbaum and Schmidt (1958) participatory leadership.

1. Whenever something important needs to be discussed in the monastery, the abbot should summon the whole community and present the matter concerned.
2. He should listen to the advice of the brothers and then consult with himself. Whatever he thinks is more beneficial, that he shall do.
3. Yet that all should be called to counsel, we have said because the Lord often reveals to a younger man what is better.
4. However, the brothers should give their advice in all humility and submission. They should not presumptuously and stubbornly defend their own views.
5. Rather, the decision shall be at the discretion of the abbot: what he deems more wholesome, in this all shall obey him.

Figure 5-6: Benedictine Rules (excerpt from the third Chapter)

Source: Benediktinerabtei Ettal (2017), according to Benedict of Nursia (c. 540 A.D.)

Also very well known are the leadership rules of General Schwarzkopf, who led the coalition forces in the first Gulf War. Schwarzkopf (1993) demands that only what is broken should be fixed, that clear goals and high demands be set, and that leaders do not interfere unnecessarily in the work of subordinates, since the latter as a rule know better how to do their job. In addition, a climate should be created in which mistakes can be learned from. According to Schwarzkopf (1993), those who are tasked with leadership should perform this immediately and always decide in favor of solutions that their inner voice considers to be correct.

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5.5 Human Resources Management

While leadership refers to the direct interaction between leaders and followers, human resources management performs two overarching functions: (1) to recruit, develop, and release employees; (2) to support managers' employee management. Typically, the tasks and processes of human resources management include the following subtasks (Thommen et al., 2017, p. 375), which we explain in detail in the following sections: determining personnel requirements, recruitment, staff motivation and remuneration, human resources development, and releasing staff.

These tasks involve determining goals, measures, and means, as well as defining the necessary control variables. This creates a closed management loop. As a whole, human resources management as a support process should be aligned with organizational strategy and contribute to aligning the actions of an organization's members with its goals and context.

A company providing largely repetitive services (e.g., a cleaning company) will likely more strongly emphasize costs and productivity. Central aspects will therefore probably include accurately assessing personnel requirements and also recruiting in favorable recruitment markets. Simple and transparent systems of personnel motivation and remuneration will be important, just as recruitment will be largely standardized or even automated.

A company performing complex, creative tasks (e.g., an advertising agency) will more likely emphasize creating an intrinsically motivated, creative pool of employees (i.e., knowledge bearers and co-entrepreneurs). Qualitative criteria in personnel recruitment will matter in such cases. Young talents might be hired on a temporary basis, quasi as a source of knowledge and creativity. Such companies might use very individual agreements to motivate and reward staff.

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5.5.1 Determining Personnel Requirements

Determining personnel requirements involves distinguishing qualitative and quantitative requirements. In the simplest cases, quantitative personnel requirements can be determined by means of productivity ratios (workload, e.g., the area to be cleaned divided by standard productivity, measured in terms of the cleaning area per employee and working hours). Planning quantitative personnel requirements requires taking into account job leavers or fluctuation rates, as well as sickness levels and other absence rates.

Assessing qualitative personnel requirements involves considering competency and personality profiles, and increasingly also cultural fit. Important instruments include job descriptions, requirements profiles, and qualification profiles:

– *Job description:* Description of position (tasks, competencies, responsibilities; see also Section 4.5).
– *Requirements profile:* Description of vacancies (required skills, competencies, etc.)
– *Qualification profile:* Description of applicant requirements (required qualifications, training, degrees, etc.)

Importantly, qualitative personnel requirements need to be aligned with future organizational changes against the background of new trends and challenges (e.g., new technologies or new markets).

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5.5.2 Recruitment

Recruitment can be described as a process that ranges from the need for new staff (job announcements, active search) to their selection and onboarding. Most positions are filled based on internal or external (i.e., open) advertisements. This enables the broadest possible search, but also an open recruitment market. Internal appointments have the advantage that applicants are known, that they are trained more quickly, and that motivation spreads to other internal employees. External appointments enable developing new competencies and bringing in new opinions and perspectives.

With positions that require specific qualifications and confidentiality (e.g., if an incumbent is unaware that a replacement is being sought), searches are often covert. Open or covert search processes can be carried out internally or externally (e.g., by the company's HR department or by a contracted HR consultancy). This may occur passively (i.e., running a advertisement) or actively (i.e., sometimes even going as far as to poach staff from a comparable position). Today's predominantly passive, open, and external searches involve various media (e.g., job platforms or classical personnel advertisements).

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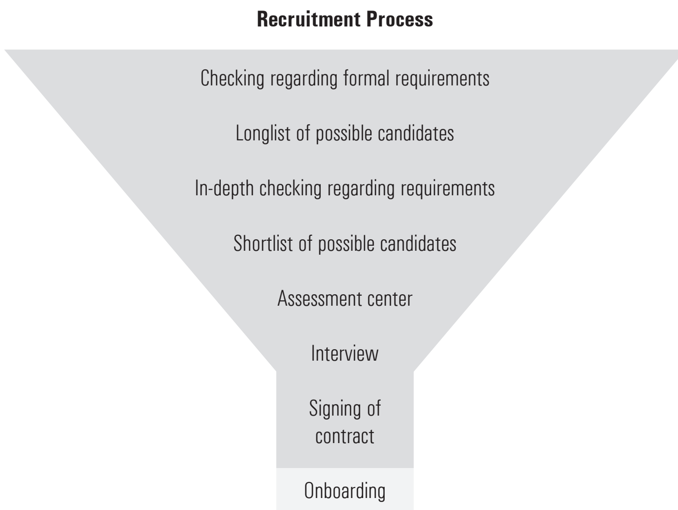

Figure 5-7: Stages of Personnel Selection (Funnel)

Applications are selected at various stages (Figure 5-7). In most cases, applications that fail to meet the formal requirements (e.g., formal qualifications) are eliminated in the first stage. In a second stage, interesting candidates are selected (in the sense of a "long list") based on the requirements profile. In a third stage, a "shortlist" is drawn up based on further, increasingly qualitative criteria (e.g., experience). Finally, shortlisted candidates are specifically and individually assessed.

In the first of these selection stages, CVs are sometimes evaluated automatically, often using artificial intelligence. In the further stages, more qualitative procedures and personality tests as well as personal and subjective assessments are used increasingly. When selecting potential candidates from a "short list," mainly face-to-face interviews are still very common nowadays, while assessment centers are also being used more frequently. Assessment centers expose candidates to realistic situations that involve completing diverse tasks or exercises. Often used is the aquarium method (i.e., several candidates must solve a task together, e.g., selecting a work of art), which enables observing individual behavior. Also common is asking candidates to solve a case study, individually or as a group. Candidates are required to present and defend their solution to critically minded experts. Ultimately, recruitment involves determining which additional qualifications candidates need to acquire and which information they need in order to start working. But it also involves atmospheric issues (e.g., onboarding and logistical issues, e.g., which infrastructure should be provided).

5.5.3 Staff Motivation and Remuneration

With regard to motivating and rewarding employees, it is a question of distinguishing monetary and nonmonetary incentives. Monetary incentives involve overall compensation, which comprises fixed remuneration and often also variable components (e.g., performance bonuses, premiums, voluntary contributions to pension funds, or discounted employee shares; Figure 5-8). In this regard, a company's compensation system should be aligned with its objectives.

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Elements of Board Compensation			
Base Salary	**Pension and Fringe Benefits**	**Variable Cash Compensation**	**Long-Term Participation Plan**
Reflects the scope and responsibilities of a particular role as well as the postholder's qualifications and experience. Monthly cash payment.	Serves to protect employees and their dependents against the risks of retirement, widowhood, and disability. Adapted to local regulations and local market practice.	Rewards performance and achievement of the company's financial targets as well as individual targets, based on a one-year period. Compensation is paid in cash, but can also be invested in whole or in part in blocked shares, with one free share option granted for every share purchased.	Rewards company success, based on a three-year period, and promotes long-term value creation. Granted in the form of stock options.

Figure 5-8: Compensation System of the Board of Directors at Geberit AG
Source: Geberit AG (2021, p. 10)

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A monetary compensation system should meet various requirements (Hack, 2011, p. 75): It should be oriented toward requirements, performance, and behavior; it ought to be socially fair, appropriate in terms of the employment market, and oriented toward company success. This is often a challenge in larger organizations and requires managing conflicting goals. In a public administration (Figure 5-9), social justice and the employment market might conflict in a salary system: On the one hand, the aim is to establish a relatively egalitarian salary system in which the differences between individual personnel categories are not too significant; on the other, it may not be possible to recruit skilled workers due to a shortage on the labor market (which may also entail salary restrictions).

	Salary Classes																			
Reference Function	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Administrative Assistant	x	x	x	x	x	x														
Administrative Clerk				x	x	x	x	x												
Technical Clerk				x	x	x	x	x	x	x										
Head of Sector								x	x	x	x	x	x	x	x					
Specialist										x	x	x	x	x	x					
Head of Department													x	x	x	x	x	x		
Head of Agency																x	x	x	x	x

Figure 5-9: Illustrative Example of a Salary System (Reference Function Catalog), based on the Canton St.Gallen

Nonmonetary incentives are becoming increasingly important today in view of the demands of Generation Y and Generation Z. This concerns work content such as the breadth of responsibility, the visibility of individual contributions, the freedom to shape one's work, workplace infrastructure, an appreciative management style, opportunities for balancing work, family and leisure time, opportunities to work from home and to take sabbaticals, or the possibility and promotion of further training.

5.5.4 Human Resources Development

According to Thommen et al. (2017, p. 420), personnel development is very important in the context of HR policy. The two key aspects are:

- Often, the required personnel cannot be sourced externally and must be developed internally (e.g., due to excess demand in the labor market or when no training is available for a particular position).
- Personnel development and the associated offerings are often also part of an incentive system and have an acquisitive effect on recruitment.

Personnel development mainly comprises two main areas: career planning; employee training and development. Career planning chiefly concerns designing a system for assessing employee performance potential and to promote employees to new positions based on clearly defined criteria (e.g., individual performance, years of service), and on personal interests and requests. Different assessment methods can be used (e.g., 360 degree assessment, i.e., evaluating employees from different perspectives, e.g., colleagues, superiors, subordinates, and customers).

Employee training and development concerns personnel policy measures, with the goal of training and developing employee knowledge and skills (Thommen et al., 2017, p. 421). In addition to basic in-service training (basic occupational knowledge and skills), this also includes in-house further education (to expand and deepen existing knowledge and skills). E-learning approaches play an important role

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in this area, but also more classical methods such as coaching (individual counseling in a professional context). The motivational effect of an organization offering comprehensive continuing education should not be underestimated, because especially in today's fast-paced world, the opportunity to receive further training is very important for employees and can be a key criterion in job selection.

5.5.5 Releasing Staff

The final step, releasing staff, involves "eliminating staff surpluses in quantitative, qualitative, temporal and local terms" (Thommen et al., 2017, p. 426). This includes not only staff redundancies (headcount reduction) but also transferring or reducing working hours (furloughing, part-time work, overtime reduction).

If layoffs are required due to employment relationships being terminated, labor and insurance law considerations in particular occupy a central role (individual employment contracts, collective labor agreements, trade unions, pension funds, social security, etc.). The main reasons for releasing staff include declining sales, structural changes, seasonal fluctuations, relocations, reorganization, or automation (Thommen et al., 2017, p. 426).

In order to avoid redundancies as far as possible, long-term personnel planning is essential and appropriate measures must be adopted early on. These include, for example, not replacing natural departures (retirement, employee resignations, etc.) or promoting voluntary departures (e.g., early retirement, financial compensation, helping employees find new jobs). Since termination is probably the hardest measure for employees to cope with, it should be resorted to solely in exceptional cases and, whenever possible, be accompanied by flanking measures such as "outplacement" (a "soft" separation supported by an HR consultant) (Thommen et al., 2017, p. 427).

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5.6 Governance

While leadership ensures achieving organizational goals through personal influence and motivation, governance concerns nonpersonal, formal determinations of an organization's purpose and function.

5.6.1 Governance and Executive Management

In the overall management and control of an organization, corporate governance (board of directors) and executive management (executive board) can be distinguished.

Rüegg-Stürm and Grand (2020) identify three core functions of *corporate governance:*

- To define an organization's basic purpose ("mission" and "raison d'être") and stakeholder relationships (see also Section 6.3.2).
- To define system boundaries and the type of organization (i.e., how an organization designs its relationship to its environment, and thus specifies, among others, its strategic search fields; see also Section 1.6).
- To institutionalize executive management, and thus to determine, among others, strategic competencies and the scope of executive management.

Rüegg-Stürm and Grand (2020) identify three core functions of *executive management:*

- To concretize the notions of success and to create the conditions needed for success within the organization by, among others, optimally configuring the management architecture and thus how strategic issues are treated (see also Section 3.5).
- To operationalize strategies within the system boundaries defined by corporate governance (see also Section 1.5.1).
- To differentiate management practice (e.g., development of management teams; see also Section 5.4) and to stabilize development processes (e.g., renewal versus optimization; see also Section 3.7).

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The interrelationship between corporate governance and executive management (i.e., the interdependence of the board of directors and executives, of power and leadership) exists in similar ways in many social systems. In a political system, a sovereign (in a direct democracy, the people) as a rule defines the framework for the government (executive management). A similar arrangement is evident at the operational level: In a two-person cockpit, a comparable division of roles as a rule exists between the pilot flying the aircraft and the pilot responsible for radio traffic and for supervising the pilot at the controls.

The specific form of the relationship between the executive management and corporate governance of stock companies varies depending on the legal system. We need to distinguish monistic and dualistic systems (Forstmoster, 2003). In the English-speaking world, the *monistic system* is prevalent: The company is managed by a "board" made up of "executive members" and "nonexecutive members." The rules for good governance stipulate how many nonexecutive members are required and how their independence should be ensured. The most pronounced variant of a *dualistic system* is probably the German concept of an executive board and a supervisory board: The supervisory board shapes the basic relationship with stakeholders, as well as appoints and monitors the executive board; strategy, however, is shaped by the executive board (Zipperling, 2012)

Switzerland follows a middle course (Forstmoster, 2003): The board of directors is assigned nontransferable and inalienable tasks (Figure 5-10), including organizational issues and overall management, and thus also strategy work. Thus, the board of directors manages the company but can delegate operational management to an executive management, aside from its nontransferable and inalienable tasks.

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III. Duties
1. In general

Art. 716

[1] The board of directors may pass resolutions on all matters not reserved to the general meeting by law or the articles of association.

[2] The board of directors manages the business of the company, unless responsibility for such management has been delegated.

2. Nontransferable duties

Art. 716a

[1] The board of directors has the following non-transferable and inalienable duties:

1. the overall management of the company and the issuing of all necessary directives;
2. determination of the company's organization;
3. the organization of the accounting, financial control and financial planning systems as required for management of the company;
4. the appointment and dismissal of persons entrusted with managing and representing the company;
5. overall supervision of the persons entrusted with managing the company, in particular with regard to compliance with the law, articles of association, operational regulations and directives;
6. compilation of the annual report, preparation for the general meeting and implementation of its resolutions;
7. notification of the court in the event that the company is overindebted.

[2] The board of directors may assign responsibility for preparing and implementing its resolutions or monitoring transactions to committees or individual members. It must ensure appropriate reporting to its members.

Figure 5-10: Inalienable Duties of the Board of Directors
Source: Swiss Civil Code, Part Five: Code of Obligations; Art. 716a OR

The relationship between the persons who represent corporate governance and executive management, in larger corporations these are the Chair of the Board of Directors and the CEO, must be based on mutual trust and respect (on the collaboration between presidents of the board and CEOs, see Krneta, 2005, p. 124). The individual "spheres of authority" must be preserved. Hence, the Chair of the Board of Directors is primarily responsible for leading the Board of Directors, while the CEO runs the company. At the same time, however, mutual complementariness should be possible in the sense of a two-person cockpit (see above). A good principle for board members is "Noses in, Fingers out" (i.e., thinking matters through critically while staying out of operational management).

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5.6.2 Origin of the Corporate Governance Debate

The debate over corporate governance, which was initially shaped by American concepts, dates back to the 1970s and 1980s (Arcot & Bruno, 2006). It focused on how best to overcome the so-called principal-agent problem: The owners of capital (i.e., principal) entrust their capital to the management (i.e., agent). The agent has a significant information advantage (Hill & Jones, 1992). A central issue is "moral hazard" (moral temptation): The agent might behave recklessly in the absence of control, resulting in losses for the capital owner (Holmstrom, 1982). Therefore, a sophisticated system of controls and incentives within an inner and outer triangle is needed (Figure 5-11).

The *inner triangle* involves interactions between the management, the board of directors, and the auditors; the *outer triangle* those between the company, markets, and stakeholders. Corporate governance needs to establish a balance within both of these triangles. Corporate governance may be said to have failed if this balance is no longer ensured. This may also occur if a company's management enters into risky commitments or even acts criminally, and if the board of directors or supervisory board fails to ask critical questions despite critical media coverage, or if the auditing department fails to issue warnings because it contents itself with insufficient evidence.

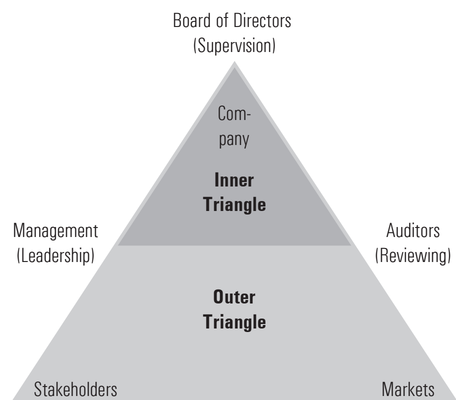

Figure 5-11: Triangles of Corporate Governance

Source: based on Böckli (2000)

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Many countries, industry organizations, and business associations develop guidelines and recommendations — so-called “codes of best practice” — for corporate governance. They also operationalize statutory provisions or supplement these with rules of good practice. For instance, the “Swiss Code of Best Practice for Corporate Governance” devised by Economiesuisse (2016) defines corporate governance as the “entirety of principles geared toward the sustainable interests of the company which, while maintaining decision-making ability and efficiency at the highest corporate level, strive for transparency and a balanced relationship between management and control” (p. 6).

According to Müller et al. (2014), the characteristics of good corporate governance include:

- Appropriate risk management
- Formal and transparent procedure for proposing and electing board members
- Functional management
- No cross-involvement between the compensation committees of different companies
- Alignment of management decisions with long-term value creation
- Transparent corporate communications
- Safeguarding the interests of various groups (e.g., stakeholders)
- Target-oriented cooperation of company management and supervision

5.6.3 Risk Management

Taken from the list above, an important task of corporate governance is risk management. This includes performing risk analyses, in which risk matrices play a central role (Figure 5-12).

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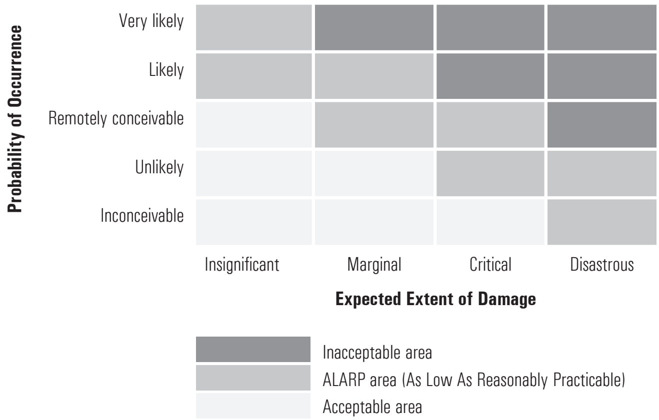

Figure 5-12: Example of a Risk Matrix

A risk matrix allows operational and strategic risks to be classified according to the expected extent of damage and the probability of occurrence. The dark fields (typically in red) mark the unacceptable risk area: For the risks classified here, both the probability of occurrence and the expected extent of damage are very high; they should therefore be brought into the responsible middle area (typically in yellow) or even the acceptable light area (typically in green) by risk-preventing measures. For risks classified in the medium range, the extent of damage and the probability of occurrence must be reduced to such an extent that the maximum possible degree of safety is ensured, taking into account a justifiable level of effort. Thus, for each risk in the medium to unacceptable range, action plans must be defined for minimizing the risk (e.g., additional controls to prevent risk) or also measures for managing a risk when it occurs (e.g., insurance or backup systems).

Importantly, preventing risks arising from employee actions also requires defining the so-called "lines of defense." The first line of defense is operational management. For example, any overstepping of competencies (e.g., in purchasing) should primarily be identified by the person directly in charge. The second line of defense supports and monitors operational management. Typically, this is ensured by the company's internal compliance department. The third line of defense, finally, monitors the compliance department's risk management. This task is often performed by the internal audit department, which also works together with the company's external auditors (Gerber & Stebler, 2014).

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Code of conduct

I. Scope of use

The rules of this Code of Conduct apply to all members of the Board of Directors and all employees of Jungfrau Railways and the Jungfrau Railways Pension Fund Foundation.

We also expect our contractual partners (suppliers, consultants and agents) to comply with our Code of Conduct when performing their contractual activities.

II. Compliance culture

A. A sincere and honest corporate culture

We are not just employees, but also co-entrepreneurs. This idea is part of our corporate culture, which is characterised by identification, loyalty and exemplary commitment.

We are loyal and support corporate decisions. We are honest and fully identify with the company.

As co-entrepreneurs we actively contribute ideas and improvements, energy and team spirit. We take responsibility for our actions, face the consequences and are prepared to admit mistakes. We learn from our mistakes and we are ready to develop ourselves further.

We communicate openly, win people over with professional arguments, and cooperation is our top priority. We ensure the implementation of organisational changes and address the concerns of our employees.

...

Figure 5-13: Excerpt from the Jungfraubahn Code of Conduct
Source: Jungfraubahn Holding AG (2020)

Compliance is of great importance for companies today. Compliance violations not only entail major financial risks (e.g., high fines), but increasingly also reputational risks. Compliance means fulfilling all the rules to be observed by the organization and its members, regardless of whether these are legal requirements or those that the organization has imposed on itself. Not only rules and controls are key to ensuring compliance. Compliance must also be built on an appropriate culture as well as leverage the self-responsibility of all organizational members. Today, so-called “codes of conduct” are also formulated. These describe the behavioral principles to be observed by company members and serve as basis for appropriate conduct (Figure 5-13).

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Chapter 5: Key Points

- Leadership is about influencing individuals or groups and about motivating them to perform, and thereby to attain group or organizational goals.
- Leadership styles can be classified on a continuum from authoritarian to democratic. At the authoritarian extreme, leaders decide on their own and issues instructions to subordinates. At the democratic extreme, the group decides independently, with the leader performing at most a coordinating function. In practice, middle variants are common, such as participatory leadership, where a superior points out a problem, but the group actively brings in solutions.
- Human resources management includes assessing staffing needs, staff recruitment, staff deployment, staff motivation and rewarding, staff development, and staff redundancies.
- Corporate governance defines the framework for all managerial activities.
- Risk management is an important task of corporate governance. In this context, compliance serves as a defense mechanism against risks.

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6 Environment and Interaction Issues

6.1 Case Study: Zurich Airport

Zurich Airport is one of Switzerland's three national airports. As the country's only intercontinental air traffic hub, Zurich Airport is part of Switzerland's strategic infrastructure (UVEK, 2010). Its outstanding economic significance extends far beyond Switzerland. The airport generates direct economic effects in the form of jobs and revenues for suppliers and service providers, but also achieves catalytic effects through its infrastructure impact, thus shortening travel times, enabling international and intercontinental connectivity, and creating brand recognition. These effects extend as far as southern Germany and Vorarlberg. For many international companies maintaining their global or regional headquarters in the Zurich-Zug area, Zurich Airport is one of the main factors affecting location decisions (Infras, 2011).

Zurich Airport began operating its first runway in 1948. Previously, air traffic to and from Zurich had been handled via Dübendorf Airport, which was used jointly by military and civilian aircraft. Already when Zurich Airport was founded, its high-risers were outsourced to an airport real estate company. Since 1984, the airport has been a stock corporation with the Canton of Zurich as the largest single shareholder. Zurich Airport has since been adapted in several stages in order to meet the changing needs of steadily increasing air traffic. Expansion required several cantonal referendums. After proposed construction loans were approved by the electorate in 1946 and 1959, a first major expansion project failed in a referendum in 1957 (Flughafen Zürich AG, 2020). Opponents considered the expansion too large; it envisaged extending the north-south blind runway from 2,600 m to 4,000 m, and the east-west runway from 1,900 m to 3,150 m. For the first time, aircraft noise became an issue in a referendum campaign.

However, since Swissair (the national airline) had in the meantime ordered modern long-range jet aircraft (DC 8), time was pressing for the necessary expansion to go ahead. A re-dimensioned project was quickly submitted and approved in a 1958 referendum. While further airport facilities were built, constructing a so-called finger dock (enabling direct access to aircraft) was deferred, with apron buses being used instead. The runways were extended to their present length of 2,500 m (west runway) and 3,700 m (blind landing runway). The airport was thus equipped for long-haul jet traffic.

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In 1970 and 1975, further positive referendum decisions followed, which made important construction projects possible. These included a new terminal with a finger dock and, above all, an additional 3,300 m runway (i.e., V runway 14/32). These projects were approved in a fiercely fought referendum campaign in which aircraft noise played a decisive role. At the same time, night flights were banned.

Later, terminal capacity was expanded in two stages: a fourth (finger dock Terminal A, opened in 1985) and a fifth one (dock E midfield, opened in 2003, accessible via a short subway journey). Once again, this required referendums to be passed. In 1991, the popular initiative for moderate air traffic, which would have meant freezing the airport's capacity, was put to the vote (and rejected by roughly two-thirds of voters). Landside access was also important for the airport's development. This was ensured in a forward-looking manner by integrating the airport into the national highway network and, in 1980, by opening the airport railway station.

Today, Zurich Airport is among the busiest in Europe. With 31.5 million passengers a year, it ranks 15th in Europe in terms of passenger frequency (Flughafen Zürich AG, 2019). In recent years, and until the COVID-19 pandemic, aircraft movements have largely stagnated, while passenger volumes have steadily increased due to the deployment of larger aircraft. At peak times, demand for slots by far exceeds supply, so that private business aircraft and amateur aviation are being increasingly displaced by scheduled flights.

Today, Zurich Airport is largely constrained by its runway system (Schürer, 2017). The historical runway layout and the ongoing expansion of the surrounding area make modern parallel runway operations impossible, unlike at other hubs. Most European hubs have successively expanded their runway systems. Frankfurt, for example, now has two additional independent runways in addition to its parallel runways, while Amsterdam even operates six runways. A major problem is runway intersections on the ground and flight path intersections in the air. Aircraft often have to cross in-operation runways, or approach and departure corridors intersect in the air. Overall, this results in a relatively low hourly capacity of 66 takeoffs and landings. Unfavorable wind conditions, such as the frequent northeasterly breeze ("Bisenlage"), which occurs even in summer, reduces capacity to 44 aircraft movements per hour, since simultaneous landings and take-offs are impossible. Fully allocated slot capacities in the take-off and landing waves lead to cumulative delays throughout the day, especially for Swiss, the "hub airline," requiring the backlog to be cleared between 11:00 p.m. and 11:30 p.m.

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Higher capacities would be desirable both from an economic perspective (expansion of connections, especially in the intercontinental sector), but also in operational terms, both for the airport (less susceptible to delays) and for airlines (ability to pursue necessary expansion and growth in international competition). Conversely, strong political forces want to limit more efficient flight routing and further expansion, and to further reduce noise pollution. Moreover, air traffic is being questioned per se in the context of the climate debate.

From a technical perspective, direct southerly takeoffs during the midday peak would bring capacity relief. The airport would like to have this possibility, as it would enable coping with adverse weather (i.e., winds) and the busy midday period. Residents and anti-noise campaigners south of the airport continue to oppose this operational flexibility and expansion. Furthermore, long-term minimal growth could only be enabled by correcting the current runway system and by converting it into a parallel runway system. This, however, does not appear to be politically feasible in the foreseeable future, since, among others, this would require an amendment on moorland protection in the Federal Constitution.

These manifold challenges raise significant decision-making dilemmas for various stakeholders, whose goals need to be weighed against each other:

- For policymakers, there is a trade-off between capacity expansion, which is desirable for the national economy and for airlines in terms of business management, *versus* environmental concerns (particularly noise) on the part of the population.
- For the airport between the necessary capacity expansion to ensure quality in terms of punctuality and certain growth prospects *versus* a good relationship with the region.
- For Swiss as a "hub airline" between seizing growth opportunities and achieving growth needs in competition with other international hubs *versus* political and societal anchoring.

Key Figures:

– Zurich Airport is a listed company, with the Canton of Zurich as a majority shareholder.
– In 2019, Zurich Airport was used by 31.5 million passengers (15th largest in Europe).
– 2019 commercial sales were CHF 601.4 million.
– In 2019, Flughafen Zürich AG employed more than 2000 people.

Discussion Questions:

A. What are the conditions for the establishment and continued existence of Flughafen Zürich AG?
B. What are the most important stakeholder relationships for Flughafen Zürich AG? Which interaction issues are likely to be prominent?
C. How might Flughafen Zürich AG shape its stakeholder relationships?

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6.2 Organizations in their Environment

Organizations emerge from and interact with their environments. On the one hand, their relationship with different stakeholders enables organizations to acquire the resources (human resources, technology, materials, etc.) they need to create value. On the other, organizations benefit these stakeholders through their primary and secondary value creation (see Section 1.5.2). Thus, they impact their environment both positively (e.g., products and services, jobs and taxes) and negatively (unintentionally, e.g., by contributing to global warming through their production).

Organizations and their stakeholders are embedded in different environmental spheres (e.g., economy, society, technology, and nature). Each of these environmental spheres operates according to its own rules, which organizations adapt to when dealing with their stakeholders. The relationship with political stakeholders or with the media as public stakeholders is different than, for example, with suppliers or customers from the economy as an environmental sphere. Their embedding in environmental spheres enables organizations to tap opportunities and resources for value creation on the one hand, but means they face stakeholder expectations and demands on the other (Figure 6-1). Taking appropriate decisions and actions enables management to actively develop and shape resources, opportunities, and expectations as the conditions for an organization's existence (Rüegg-Stürm & Grand, 2020, p. 230).

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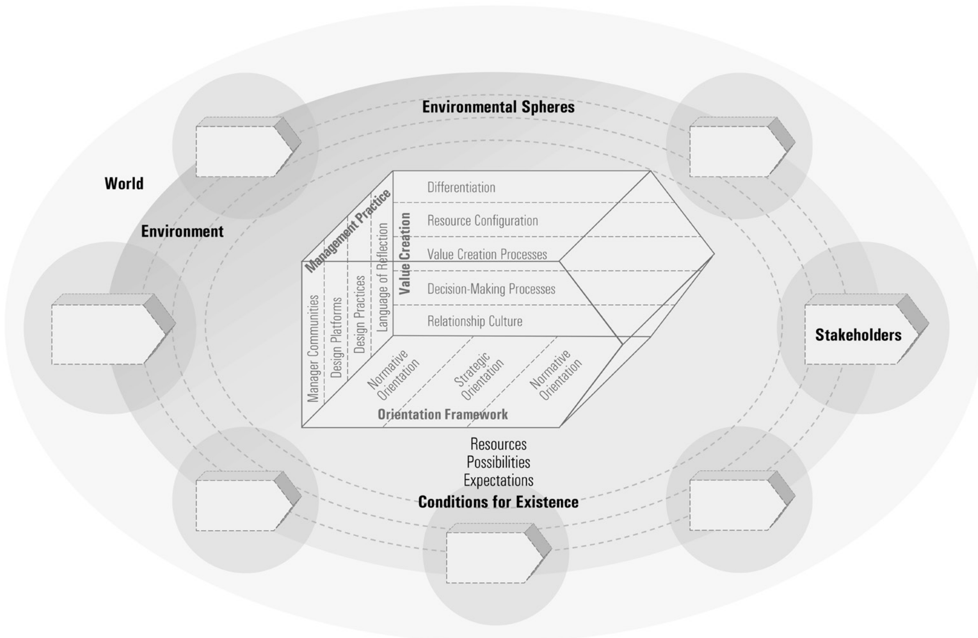

Figure 6-1: Current St. Gallen Management Model, Practice Perspective
Source: Rüegg-Stürm and Grand (2020)

In order to exist long-term in a competitive economic environment, companies must overcome various challenges. If a company is unable to survive in its environment, its financial situation will ultimately put it out of business (see also Section 3.7.2). At the latest when an organization is no longer able to meet its current financial liabilities (liquidity problems), or if its liabilities exceed its assets (solvency problems), it loses its ability to continue existing. The responsible actors must file for bankruptcy and liquidate the company or, if there are prospects for improvement and restructuring, seek debt deferral. Thus, a company's relationship with its financial backers is also highly important. If, even in dire circumstances, a company can convince its owners, lenders, or — as "lenders of last resort" — the public sector of its viability and *raison d'être*, these actors can keep the company alive by providing additional loans (liquidity) or capital injections (solvency).

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Various approaches — so-called "theories of the firm" — have been developed to explain the emergence, existence, and growth of firms. Following Slater (1997), (at least) five theories can be distinguished (they are briefly described below and presented in detail later):

– *Neoclassical theory:* This emphasizes the question of whether the company (given the appropriate technology) has a feasible operating size for its industry. The challenge is to achieve economies of scale in relatively stable environments due to competition, in order to produce one's products or services in a cost-covering manner.
– *Transaction cost theory:* This emphasizes the question of whether the company has a plausible reach in the value chain (i.e., whether its corporate boundaries and thus interfaces to the market are defined in an economically meaningful way with regard to external transaction costs and internal coordination costs). As such, this approach explores which partial services — given that organizations are becoming increasingly specialized — should be provided by the company's own value creation and which not.
– *Resource-based theory:* This approach emphasizes the question of whether the company has resources and capabilities in the sense of protectable competitive advantages that secure its existence. In a broader sense, this approach focuses on the challenge of companies competing for resources. This capability is crucial for success, especially in knowledge-intensive industries or due to increasing innovation competition.
– *Behaviorist theory:* This emphasizes the question of whether the company is able to maintain stakeholder cohesion. Central to this approach, therefore, is the fact that organizations interact with diverse stakeholders from various environmental spheres. Success here consists in dealing with the different demands on an ongoing and consistent basis, in order to secure resource access and the sales of one's products and services.

– *Customer value-based theory:* This approach emphasizes the question of whether the company manages to generate sufficient customer value in competition with others to open up a sufficiently large market. This approach foregrounds customer value and thus addresses the issue of constantly adapting to changing needs in competition with other companies.

Each of these five "theories of the firm" addresses a specific challenge that companies face in surviving successfully in their environments. In practice, companies deal with all of these — and other — challenges simultaneously to ensure their success. An automobile manufacturer must produce as cost-effectively as possible due to competition. It achieves this goal, among others, by regularly deciding which services to provide in-house and which to bring in. As a result, the company needs to manage its growing supplier network (with regard to the purchased parts and their quality, timely and local delivery, as well as continuous further development). This task requires additional skills and resources (i.e., beyond those needed for in-house production, research and development, etc.). At the same time, a manufacturer pays attention to how it deals with stakeholders (in this case suppliers) but also employees, investors, customers, politicians, or the public. A key stakeholder group is customers, whom the company's products and services must benefit to ensure its success. Cars, for example, are tailored to different needs, down to the individual configuration of new vehicles. In sum, organizations must therefore work on all the issues addressed by the "theories of the firm" at the same time. These "theories of the firm" (based on Slater, 1997) are discussed in more detail below.

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6.2.1 Neoclassical Theory

The neoclassical theory (Chandler, 1992) of firm growth starts from the model of perfect competition. In the simple neoclassical model of production (based on the input factors labor and capital), an optimal firm size exists for all production in terms of output. This amounts to the cost-minimizing configuration of labor and capital for a given technology.

Thus, typically, before the advent of railroads and refrigerators, the optimal size of a brewery was defined by the maximum possible processing quantity without refrigeration facilities and the delivery markets with the existing transport technology (horse-drawn carts). Accordingly, brewery size was limited by the consumption volume of a small to medium-sized city or rural region or a single neighborhood in a larger city.

Together, new technologies (e.g., refrigeration units enabling storage of larger production quantities), trucks (which opened up larger market areas), and advanced production technology (e.g., new computer-controlled processes and hygiene measures) enabled continuously increasing optimal company size. This increase continues to the present day, with large breweries now supplying global markets. Theoretically, the production optimum (and thus reasonable operating size) is explained by microeconomics: Under the conditions of full competition, this optimum lies where the marginal cost of production (i.e., the production cost of the last unit) intersects with the average cost per unit produced (Kolmar, 2017, p. 237).

As such, neoclassical production theory explains the optimal operating size of firms, and thus how a production landscape, and indirectly a business landscape, should be structured. A company exists as long as its operating size allows its survival. If its optimal operating size increases due to new technologies, the company must either grow, integrate into, or disappear from the market.

6.2.2 Transaction Cost Theory

Transaction cost theory (Coase, 1937; Williamson, 1975) explains the existence and size of an enterprise by comparing external transaction costs with internal coordination costs. Thus, a company produces whatever it cannot buy or sell more favorably on the market.

For example, outsourcing hospital cleaning is very complex. Surgery schedules require very flexible cleaning times, and the required quality is differentiated by treatment area. Cleaning staff, who also need to communicate with patients in difficult situations, require appropriate training and aptitude. Finally, liability issues also need to be regulated (in the event of inadequate cleaning and violations of duty of care). Issuing corresponding cleaning contracts would be very complex, while the internal costs for coordinating an in-house cleaning service can be significantly lower thanks to the planning tools and HR processes already existing in a hospital.

Consequently, a company encompasses precisely those activities that can be coordinated within an economic unit in an economically sensible manner. According to transaction cost theory, the company's interfaces with its environment (e.g., relationships with suppliers, customers, and partners) change when societal, technological, or legal conditions change. If, for example, a society's increasing heterogeneity erodes the common, quasi-culturally given understanding of quality, there arises an increased need for control of services, which in turn could make service contracts more detailed and thus transaction costs higher, making outsourcing less attractive. If, on the other hand, new technologies give rise to electronic platforms (e.g., for personnel recruitment), outsourcing maintenance work becomes easier. Or if new liability conditions make it stricter for suppliers to comply with safety, environmental, and human rights standards, it might be worth internalizing production again rather than outsourcing it due to simpler internal control options.

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6.2.3 Resource-Based Theory

Resource-based theory (Penrose, 1959) explains the company's existence, size, and development in terms of resources. Like neoclassical theory, it concerns the optimal combination of resources. According to resource-based theory, however, these resources are not homogeneous and interchangeable, but rare and hard to imitate.

If, for example, a company's distinct competencies enable producing high-quality products at comparatively low cost (thanks to standardization and large quantities), then its reach may be global. If, however, a company is only able to supply smaller quantities and specialized products at medium and higher costs, it may tend to prosper only in a regional market. A large reach, even with unique competencies, always requires appropriate investment in production facilities and distribution systems, as well as in market development and risk coverage. This is also evident in many startups, which require large capital inflows in the growth phase.

6.2.4 Behavioral Theory

Behavioral theory (Simon, 1947) explains company size and existence in terms of successful stakeholder cohesion. This theory explains why companies can survive despite (partial) deviation from "rational" behavior and without perfect profit maximization (see neoclassical theory). For the benefit of individuals (e.g., managers, employees) or coalitions (e.g., trade unions, professional associations), a compromise is sought, whereby the company's profit is limited, while risks and long-term survival within and of the organization are ensured.

For example, an accounting firm able to maintain a large international reach more easily even during a deep recession because of its good connections with regulatory authorities in various countries, but also thanks to establishing an internationally active client base and gaining a foothold over many years in professional associations and by investing in local training institutions.

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6.2.5 Customer Value-Based Theory

Customer value-based theory (Slater, 1997) starts from the buyer's market. The generated customer value becomes the organization's *raison d'être*. According to this theory, a company's existence depends on whether it successfully fulfills the needs of its customer markets, and thus its basic function. For example, a streaming service can generate superior customer value thanks to its largest selection of movies (compared to competitors) and personalized recommendations, two factors enabling rapid expansion and global growth.

A company's existence is called into question when it no longer offers customer value. This is the case today, for example, with physical mail, which is no longer profitable in many countries, especially given the need to operate many post offices. Customer value is thus insufficient in relation to production costs. The example of Swiss Post, however, shows that overarching reasons may justify maintaining operations (to provide a basic public service) despite a lack of customers or insufficient customer benefits.

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6.3 Organizations, Environment, and Interaction Issues

Organizations need their environment to access resources and, as mentioned, make their own contributions to their environment. The SGMM closely examines this reciprocal relationship between an organization and its environment.

On the one hand, organizations tap resources in their environment (e.g., labor, capital, knowledge, but also demand for their own products, as well as seeking government approval of operating licenses and accessing the public to gain a positive reputation). What counts as a resource is determined by the respective value creation process (Section 1.5.2). Thus, every organization defines its own environment depending on the resources it needs. These resources are diverse and in part also interdependent (e.g., certain technologies and skilled employees). Over time, a specific resource configuration for the organization's value creation processes develops from the different resources and their interrelationships.

On the other hand, organizational value creation results in products and services that an organization delivers to its customers, and thus to the environment. Besides this primary value creation, organizations also create secondary or additional value, whether intentionally or unintentionally (Section 1.5.2). In sum, organizations are embedded in their environment (i.e., they respond to environmental expectations, specifically their stakeholders'). At the same time, organizations also shape their environment through their value creation and how they engage with their stakeholders (Figure 6-2). Thus, management (as the third element) always has a dual focus — on the organization and on the environment — with the goal of creating sustainable value (Rüegg-Stürm & Grand, 2020, p. 37).

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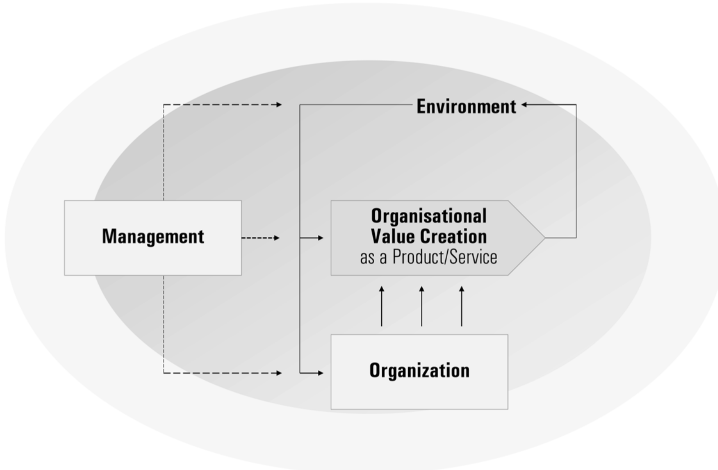

Figure 6-2: Organizational Value Creation, Environment, Organization, and Management
Source: Rüegg-Stürm and Grand (2020, p. 38)

An organization's interaction with its environment leads to mutual demands, requirements, and expectations. In order to know and address these concerns and their development over time, organizations build relationships with their stakeholders. In different ways, they enter into dialogue on the respective issues, so-called *interaction issues*. Thus, in dealing with different stakeholder groups, it is a matter of sounding out the various concerns and expectations and of connecting interests to achieve organizational success.

An example of an interaction issue with employees, or with their representatives (e.g., unions or personnel committees), is job security. If the environment is stable, relatively solid and lasting agreements or arrangements can be made. This happens, for example, if a manufacturing company based in a reasonably sized community employs a similar number of people, a similar product with a comparable environmental impact over decades, thanks to a stable technology. However, changes in other environmental spheres mean these arrangements need to be questioned time and again. For example, if awareness of environmental impact increases, the relationship with the natural environment in our example needs to be renegotiated. The consequences may include the need for additional investments in filtration or wastewater treatment plants. Conversely, these investments may also affect the company's overall production costs, perhaps forcing it to invest in more efficient production technologies, which in turn reduces labor needs.

6.3.1 Environmental Spheres

A change in one area of the organizational environment can affect the company's relationship with its entire environment. The environment is not a homogeneous space but consists of different and diverse spheres (Rüegg-Stürm & Grand, 2020, p. 56), for example:
- Economy
- Technology
- Nature
- Society

Typically, new technologies are created at research institutions operating in the field of technology as an environmental sphere. Financial resources are obtained via the capital market in the economy as a second environmental sphere. Employees are recruited in society as a third environmental sphere; public reputation is negotiated in the media while regulations are produced in political decision-making processes. The most fundamental of all environmental spheres, however, is nature. As the human habitat, it is a central supplier of resources (water, climate, topography, etc.).

The mentioned environmental spheres function differently and have their own ideas of goals and success: In the economy, for example, the ultimate goal is economic success, with profit being the decisive factor. In technology, it is new developments or patents, while in a (democratic) society, winning majorities leads to success. For organizations, this diversity is challenging, because they must think and shape their relationships with all environmental spheres and stakeholders in an integrative way. Environmental spheres, moreover, are not static but dynamic, which explains why controversies occur between environments. For example, climate change means that the natural environment has recently attracted steadily increasing public attention. How far should a company go to meet higher environmental

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standards without increasing its costs and perhaps even jeopardizing local jobs? Or how far should financial risks be taken at the owners' expense in order to invest in new products and satisfy consumer needs?

Such controversies exist not only between a company and any single stakeholder group. Because stakeholder groups overlap (environmental representatives might also be customers), and because solutions for one environment have implications for others (e.g., discounts and lower prices for customers may reduce returns for investors), managers must — integratively — find balanced solutions across all stakeholder groups and tackle controversies. Depending on the environmental sphere, the focus can lie on different interaction issues and controversies with different evaluation scales (Figure 6-3).

Environmental Spheres	Economy	Technology	Nature	Society
Interaction issues and controversies	Economic framework conditions, Transport infrastructures	Innovation in the areas of mobility and energy production	Pollution, climate and climate change, resource abundance	Local residents suffer noise disturbance
Evaluation benchmarks	Payment/non-payment, efficiency	Energy, time, cost savings	CO_2 emissions, greening	Loud/silent, decibels

Figure 6-3: Environmental Spheres with Interaction Issues, Controversies, and Assessment Criteria (example of an airport)

6.3.2 Stakeholders

Before a company adopts concrete measures such as roundtables (Section 2.6.1) in order to manage such complex controversies, it first needs to analyze its stakeholders. The SGMM defines stakeholders as actors within the environmental spheres that are participating in or are currently or potentially affected by that organization's value creation (Rüegg-Stürm & Grand, 2020, p. 54). Such actors include customers, suppliers, media, politicians, but also citizens' initiatives, NGOs, or public authorities (Figure 1-1). Depending on the type of value creation, an organization will have a different number of stakeholder groups, which will also be differently composed.

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Thus, an organization needs to (1) define its stakeholder groups, (2) prioritize them, and (3) consider how to deal with each of them. For these three steps — which amount to so-called stakeholder analysis — there are basically two approaches, each expressing an organization's basic attitude toward its stakeholders:

– *Strategic stakeholder concept* (Freeman, 1984): This implicitly assumes a means-end relationship. This concept is mainly based on the effectiveness of a stakeholder group (Rüegg-Stürm & Grand, 2020, p. 53). Primarily those stakeholders are considered relevant that can influence the company (i.e., those on whom the company depends). In the above example (i.e., investing in environmental measures), customers, investors, and influential politicians in particular would be defined as relevant stakeholders, as the company heavily depends on them. Wider society, foremost the residents affected by a specific environmental impact, has no significant influence on the company and must "tolerate" its impact on the natural environment in order to preserve local jobs. The extreme form of the strategic stakeholder concept is the shareholder value approach, which aligns company strategy solely with shareholder or owner interests.
– *Normative-ethical stakeholder concept* (Ulrich, 1997): This assumes that there is an obligation to take an integrated responsibility perspective and is oriented toward how a particular stakeholder group is affected by company action. Thus, those stakeholders who are affected (positively or negatively) by an organization's value creation are considered relevant. In the above example (i.e., investing in environmental measures), company managers acting in accordance with this concept would establish which stakeholder groups are affected and to what extent: They would define directly affected residents as an important stakeholder group whose concerns must be taken into account. Next, they seek a solution through dialogue with all relevant stakeholders. In sum, this approach focuses on the affected parties.

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6.4 Coming Full Circle: Back to Integrative Management

This book began by stating that performing management tasks always requires contributions from various functions or business subdisciplines (see Section 1.4). Management issues are often cross-functional. The inclusion of different functions or disciplines requires integrative management within an organization. The same, however, also applies relative to the outside world, that is, to the stakeholders in an organization's various environmental spheres, as this final chapter has shown. If a company or an organization is to survive and succeed in its environment, it needs to integrate different stakeholders and their concerns. Integrative management, internally and externally, is thus an essential prerequisite for a company to function and continue existing.

In order to ensure an integrative view, different scientific approaches and different practical methods are conceivable (see Section 1.4). Common to all integrative management approaches is the need to consider various dimensions of integration. The following list relates possible integration perspectives to the chapters of this book:

– *External integration* (Section 6): Integration of the often-conflicting interests of various stakeholders. Cohesion among these stakeholders is a prerequisite for the existence of organizations. Different ethical approaches are possible when dealing with stakeholders.
– *Internal integration* (Chapters 4 and 5): Integration across various functions and organizational units within the company. Governance, structure, and culture offer starting points for integration, which must be achieved by managers.
– *Integration over time* (Chapter 3): Integration of the short- and long-term horizons of corporate management (i.e., dealing with the conflict between short-term success and safeguarding the ability to exist and succeed in the long term). The various planning dimensions (operational, strategic, normative level), strategy as a structuring force, and the different development modes offer explanations and approaches in this respect.

– *Integration within management* (Chapter 2): Integration of the tensions existing within management tasks and teams (e.g., different decision-making methods, communication platforms, reflective practices). In order to effectively implement integration — internally, externally, and over time — managers must continuously develop their communication, facilitation, and decision-making skills and tools.

During integration, tensions and conflicting goals may arise in each of the mentioned dimensions. For example, the internal view of integration raises the question of which function or department should take priority. Does the cost view, customer value, or environmental justice dominate in developing a new product? This also concerns which functional areas should receive more investment in the future. Such investment decisions involve considering which goals should be weighted more strongly in terms of a time-related integration perspective: Secure, short-term operating income and returns? Or longer-term, strategic, yet uncertain development potential? In the external view of integration, the demands of different stakeholders and environmental spheres generates conflicts about who receives which benefits and who must bear which burdens. Dealing with these tensions requires dialogue and concerns:
– Finding an appropriate solution that enables the organization to survive in and with its environment (Section 6.2).
– Finding a solution that those affected accept as fair or appropriate, that also stands up to external assessment, and that is perceived as fair in terms of outcome and process (Section 2.6).

Dealing with tensions in the various dimensions of integration requires considering that, in many cases, there are no objectively right or wrong solutions, and that only hindsight tells which alternative would have been better. Hence, managers need to examine other points of view, to critically reflect on their knowledge, procedures, and attitudes, and thus to approach decisions with a certain humility and self-reflection. Integrative management therefore requires not only professional but also social and personal skills for dealing with tensions. We need reflective specialists and managers who are prepared to critically question themselves, their actions, and their effects on the environment.

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Chapter 6: Key Points

- The various “theories of the firm” enable accounting for companies’ existence and survival in terms of optimal size, minimum transaction costs, suitable resources, cohesion of stakeholder groups, or sufficient customer value.
- Two basic approaches exist to the relationship with stakeholders and environmental spheres: the strategic and the normative-ethical stakeholder concept.
- Integrative management takes place across various dimensions: internally across the organization’s various functions and areas; externally across the various stakeholders and environmental spheres; temporally across the various maturities and development modes. If integrative management is to succeed, managers must also continuously integrate (new) capabilities and tools.

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Figures

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Alphabetical Index

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